



- Negative yielding debt down 15% since inception ([link](#))
- Investors position for higher rates in Japan ([link](#))
- Poll forecasts moderate gains for S&P 500 in 2022 ([link](#))
- US corporate profits at record levels ([link](#))
- Markets price aggressive rate hikes in India ([link](#))

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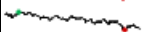







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Markets in retreat as Fed rate hikes loom

Hawkish comments from Fed Chair Powell yesterday set the tone for markets around the world, pushing stocks lower, interest rates higher and most currencies weaker against the dollar. European indexes are posting significant losses and US equity futures are pointing to a down day on Wall Street. The benchmark US 10-year Treasury yield is within shouting distance of 3%, a level it has not seen since 2018. Investors are testing the Bank of Japan's yield curve control policy by using the interest rate swap market to bet on higher rates. The authorities in China are using rhetoric to talk up local equity markets after Chinese stocks erased \$2.7 trillion in value in 2022, while the offshore currency suffered its worst week since the unexpected devaluation in 2015. There is a general mood of unease in global markets this morning, with the impact of the lockdowns in China growing steadily, the war in Ukraine dragging on, inflationary pressures on the rise, shortages of food and fuel getting worse and the global economy showing greater signs of weakness.

Key Global Financial Indicators

Last updated: 4/22/22 7:52 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4394	-1.5	-1	-3	6	-8
Eurostoxx 50		3863	-1.7	1	-2	-4	-10
Nikkei 225		27105	-1.6	0	-4	-7	-6
MSCI EM		43	-1.9	-5	-6	-21	-12
Yields and Spreads			bps				
US 10y Yield		2.91	0.5	9	53	138	140
Germany 10y Yield		0.93	-1.8	9	43	118	111
EMBIG Sovereign Spread		411	-1	8	-42	70	44
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		52.9	0.2	0	2	-7	1
Dollar index, (+) = \$ appreciation		100.8	0.3	1	2	10	5
Brent Crude Oil (\$/barrel)		107.2	-1.1	-4	-7	64	38
VIX Index (% change in pp)		23.2	0.6	1	0	5	6

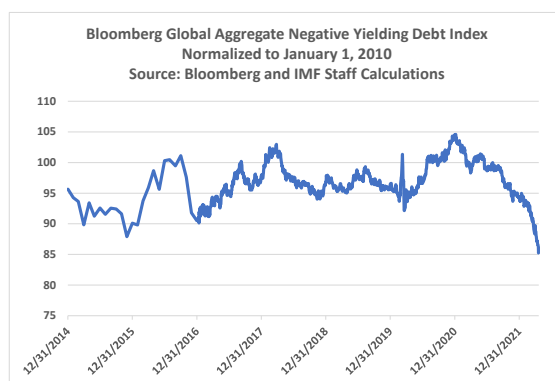
Colors denote tightening/easing financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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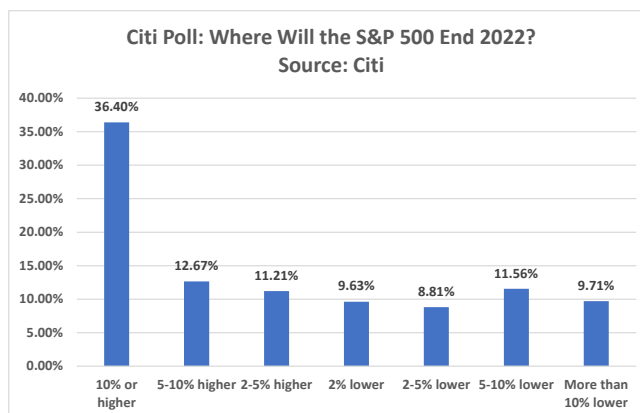
Global Bond Markets

Negative yielding debt has lost roughly 15% of its value since inception, as measured by the Bloomberg Aggregate Negative Yielding Debt Index. Many governments in the euro area, Japan and other countries had negative policy rates during the years after the global financial crisis and were able to issue debt at negative rates. Spreads narrowed so much that even some euro area high yield debt was trading at negative rates. Investors bought these negative yielding assets on hopes of capital appreciation as rates fell even lower, and for many years the gamble paid off. However, the post-pandemic selloff in bonds and the large increase in interest rates has finally pushed total returns on negative yielding debt into negative territory.

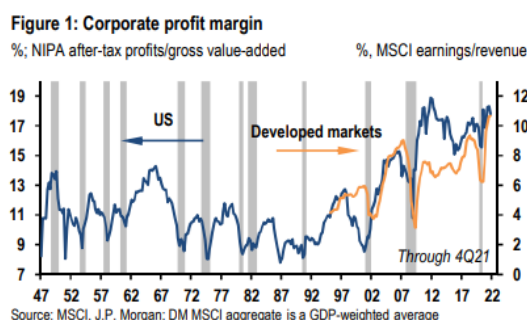


United States

60% of investors in a poll by Citi expect the S&P 500 to end higher from current levels by the end of 2022. However, a much smaller cohort expect the index to erase the 7.5% loss sustained by the index so far this year. The Q1 earnings season is off to a good start, with around 80% of the S&P 500 companies to have reported so far beating analyst forecasts, reassuring many about US corporate prospects. Nevertheless, risks remain high in the face of Fed rate hikes, high inflation, the global economic slowdown centered on the travails of the Chinese economy, and the war in Ukraine. Even the most optimistic investors see little chance of a large rally by the end of the year.



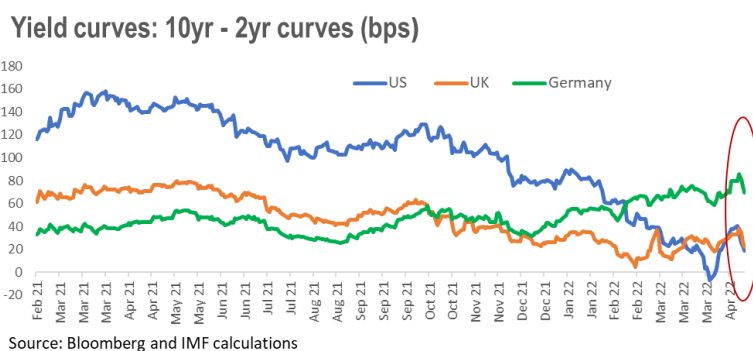
Corporate profits in the US and other developed markets are at record high levels despite rising labor costs. JP Morgan's analysts attribute these record profit margins to strong productivity gains and a rise in corporate pricing power. As recent CPI data show, companies were able to pass off higher prices to their customers. From the consumer side, brisk wage growth and high levels of savings due to government support during the pandemic has enabled them to absorb these higher costs. But the analysts warn that these tailwinds are fading as the relentless march of inflation erodes gains in wages even as savings are being run down. At some point, corporations will no longer be able to pass on these higher costs to their consumers, and profit margins will start to decline.



Euro Area

European equities were trending lower this morning with the benchmark Stoxx 600 Europe index down -1.3%. Losses were broad based across sectors with the retail (-2.6%) and technology (-2.6%) sectors seeing the largest declines. The banking sector was trading -1.8% lower.

The euro depreciated (-0.3%) as hawkish commentary from the ECB Governing Council failed to support the currency. Ahead of Sunday's second round presidential elections in France, President Macron remains on track to be reelected according to recent polls. **Sovereign yields edged higher with short-term yields increasing (2-yr bund yields +6bps) and the bund yield curve flattening.**



The eurozone's April flash composite PMI was better than expected as activity in the services sector offset a decline in manufacturing. April's flash composite PMI increased to 55.8, with the services (57.7) component the highest in eight months. Manufacturing (55.3) decreased but was still stronger than expected. **The survey noted unprecedented increases in average prices charged for services and goods, suggesting that inflationary pressures are mounting.** S&P Global economists warn of a services sector growth slowdown as living costs increase. Separately, **flash consumer confidence in the euro area was also better than expected in April**, increasing to -16.9 in April (versus an expected decline to -20).

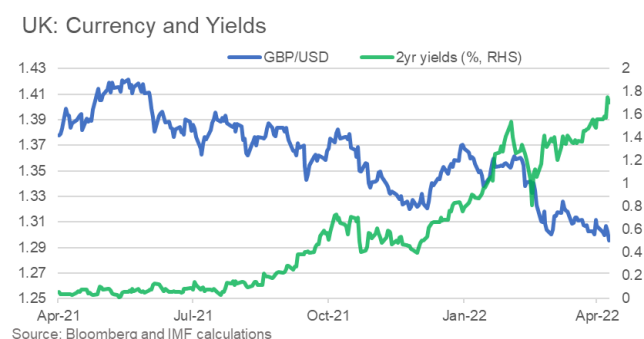
On a jurisdictional level, Germany's flash composite PMI fell to **54.5** (vs expected 54.1 from 55.1) while Germany's manufacturing output index fell into contractionary territory (47.4 from 53.0) with producers flagging lower demand and production constraints due to material shortage. France's composite PMI showed a notable increase (57.5 from 56.3), mainly driven by services PMI (58.8 from 57.4), while manufacturing PMI also increased (55.4 from 54.7).

Analysts note that today's PMI data reinforces expectations for an interest rate hike by the ECB, and ING analysts now expect a rate hike in each of the final two quarters of 2022, while Bloomberg Economics sees support for a rate hike in September. Markets are pricing **+82 bps of tightening in 2022** (compared to **+64 bps at the start of this week**), with a **+25bps hike in July** almost fully priced in (compared to **+11 bps at the start of this week**).

United Kingdom

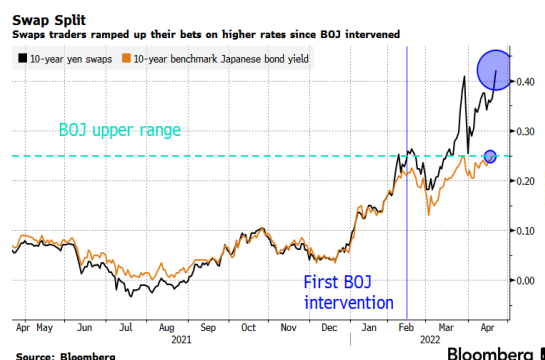
Short term yields increased and money markets increased rate hike expectations after BoE policymaker Catherine Mann yesterday hinted at the possibility faster tightening, while suggesting that rate-hike decisions would be heavily dependent on consumption developments. Separately, BoE Governor Andrew Bailey highlighted the need to strike a careful balance between leaning against inflation and sidestepping a recession. He highlighted that the strength of the labor market is a key consideration.

The pound depreciated (-1.2%) to the lowest level in more than a year against the dollar following disappointing consumer confidence, retail sales, and PMI data. Markets are now pricing +33 bps of tightening at the upcoming BoE meeting on May 5, compared to +38 bps yesterday, with roughly +160 bps of tightening priced in for 2022. ING analysts note that a downturn in consumer spending seems more likely and expect only one or two additional hikes by the BoE before policymakers pause the hiking cycle.



Japan

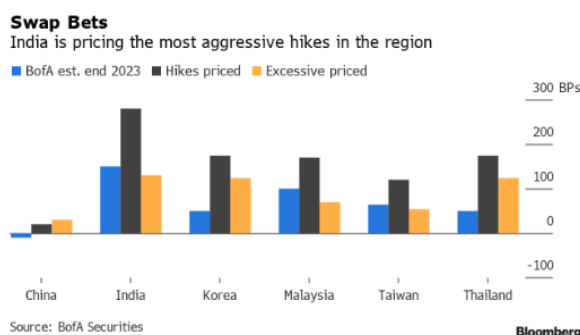
Foreign funds reportedly are speculating on the rise in Japan's interest rates via the swaps market. While the 10-year JGB yield has been kept below the BOJ's upper limit at 0.25%, 10-year swap rates have surged, breaking their close relationship with the JGB yield. Analysts noted that foreign traders view that higher yields in Japan are inevitable and that the BOJ may be forced into changing its yield curve control policy. In addition, the net sale of 10-year JGBs by nonresidents amounted to \$15.6 bn in March, a record amount.



Emerging Markets

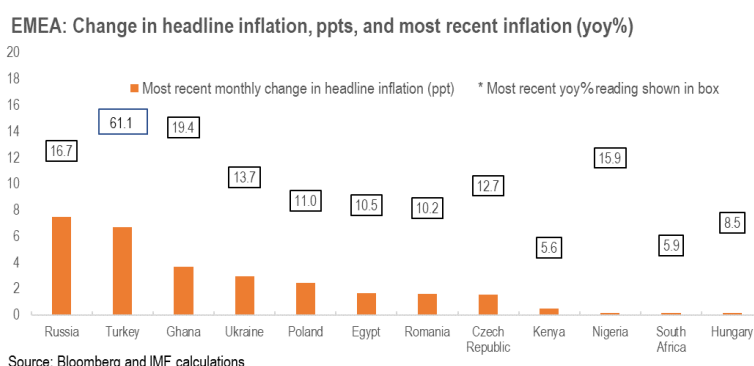
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EMEA stocks followed the US and Europe lower. JP Morgan's analysts expect the Central Bank of Russia to cut its policy rate by 20 bps next week. **Asian equities also fell**, although China finally posted a modest gain after days of losses. Currencies were weaker and yields were higher. **In India**, markets are pricing in aggressive rate hikes by the Reserve Bank of India as controlling inflation becomes the main policy focus. Based on swap rates, the rate hikes would be around 275 bps by end-2023, the highest among Asian economies. **Latin American** markets joined the global selloff yesterday.



EMEA Inflation

Headline inflation continued to accelerate in the majority of EMEA countries in March. The largest increase was seen in Russia (to +16.7%yoy from +9.2%) and Turkey (to 61.1%yoy from +54.4%). Inflation in Egypt and Ghana also saw large increases in March, driven mainly by food inflation. Among central and Eastern European Economies, Poland saw the most significant increase (to +11.1%yoy from +8.5%), while inflation in Hungary increased only marginally (to +8.5% yoy from +8.3%). **Goldman Sachs analysts expect inflation in Poland, Hungary, Romania, Czech Republic, and Turkey to see the most significant impacts from the war in Ukraine, as a result of trade links.**



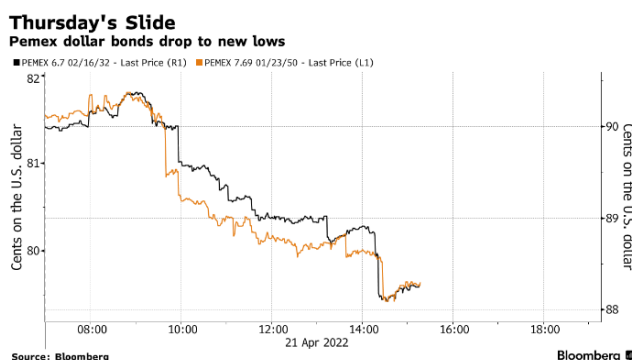
China

Chinese equities rose (CSI 300: +0.4%) as authorities urged local institutional investors to buy more shares. The China Securities Regulatory Commission (CSRC) convened a meeting and issued guidance yesterday, stepping up efforts to stem the market decline. Chinese equities had rebounded sharply after Beijing issued policy promises to stabilize markets in mid-March; however, the gain has been largely erased as markets became increasingly concerned about China's growth slowdown amid the lack of forthcoming policy support. Shanghai vowed to enforce strict COVID control rules. Lockdown fatigue has led to a loosening of enforcement in recent days.



Mexico


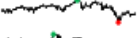


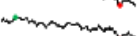

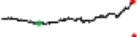
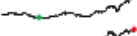




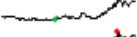



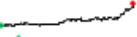




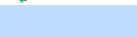



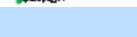


The bond prices of Pemex, the state-owned oil company, reached a record low. The company is to repay its debts from its own cash flow, with the government no longer stepping in to support payments. According to Bloomberg, Pemex owes about \$2.5 bn in principal this year and another \$2.5 bn in interest. Pemex's dollar bonds maturing in 2032 tumbled to an all-time low of 88.4 cents on Thursday, and the debt maturing in 2050 reached a new low of 79.9 cents. Finance Minister Ramirez said late yesterday that Pemex had enough cash flows to meet debt obligations. Ramirez added that the government would step in should the pandemic worsen again and Pemex needed further support.



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Global Financial Indicators

Last updated: 4/22/22 7:55 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4394	-1.5	-1	-3	6	-8
Europe		3863	-1.7	1	-2	-4	-10
Japan		27105	-1.6	0	-4	-7	-6
China		4013	0.4	-4	-4	-22	-19
Asia Ex Japan		71	-1.8	-5	-7	-24	-14
Emerging Markets		43	-1.9	-5	-6	-21	-12
Interest Rates			basis points				
US 10y Yield		2.91	0.5	9	53	138	140
Germany 10y Yield		0.93	-1.8	9	43	118	111
Japan 10y Yield		0.25	-0.1	1	3	18	18
UK 10y Yield		1.97	-4.7	8	26	123	99
Credit Spreads			basis points				
US Investment Grade		151	-0.3	7	8	56	39
US High Yield		382	-1.0	-6	-9	42	44
Europe IG		80	1.7	1	2	29	32
Europe HY		380	6.9	4	15	128	137
Exchange Rates			%				
USD/Majors		100.83	0.3	1	2	10	5
EUR/USD		1.08	-0.1	0	-2	-10	-5
USD/JPY		128.3	0.0	1	6	19	12
EM/USD		52.9	0.2	0	2	-7	1
Commodities			%				
Brent Crude Oil (\$/barrel)		107	-1.1	-4	-4	76	40
Industrials Metals (index)		212	-0.5	0	5	43	23
Agriculture (index)		78	0.3	1	3	37	28
Implied Volatility			%				
VIX Index (% change in pp)		23.2	0.6	0.5	0.3	4.5	6.0
US 10y Swaption Volatility		120.6	0.0	3.6	24.9	45.9	41.5
Global FX Volatility		9.1	0.0	0.2	0.2	1.8	1.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		205	3.0	-3	-19	90	53
Italy		171	4.7	6	19	70	36
Portugal		102	2.3	3	24	37	38
Spain		97	2.0	3	5	33	23

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

Last updated: 4/22/2022 7:58 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		6.50	-0.8	-2.0	-2	0	-2		2.9	3.0	8	0	-27	7
Indonesia		14362	-0.1	0.1	0	1	-1		7.0	3.4	6	25	56	61
India		76	-0.4	-0.4	0	-2	-3		6.3	0.0	0	9	75	0
Philippines		52	0.1	-0.3	0	-7	-3		5.3	0.0	3	10	83	80
Thailand		34	-0.2	-1.0	-1	-8	-2		2.8	16.0	18	43	78	92
Malaysia		4.33	-0.8	-2.1	-2	-5	-4		4.2	6.1	13	48	115	63
Argentina		114	-0.1	-1.0	-4	-18	-10		52.1	150.6	191	315	550	149
Brazil		4.62	1.0	1.5	7	20	21		12.1	-2.0	15	-17	267	136
Chile		826	-1.3	-1.1	-4	-16	3		6.5	0.0	-2	23	292	103
Colombia		3770	-0.3	-0.8	1	-4	8		8.1	0.0	25	17	280	173
Mexico		20.31	-0.7	-1.6	0	-2	1		8.7	1.5	4	49	203	119
Peru		3.7	-0.6	-0.1	1	-1	7		7.7	10.9	36	106	229	175
Uruguay		40	1.5	3.0	6	10	11		9.5	13.3	26	110	216	83
Hungary		342	-0.2	1.5	-2	-12	-5		6.7	5.0	47	60	424	215
Poland		4.28	-0.1	0.0	-1	-11	-6		5.7	13.0	42	90	390	218
Romania		4.6	-0.2	0.0	-2	-10	-5		6.5	-0.8	3	69	384	163
Russia		76.7	5.5	8.0	37	-2	-2		12.2	5.0	-8	-919	483	343
South Africa		15.6	-1.1	-5.9	-5	-8	2		8.2	-2.0	15	5	74	78
Turkey		14.74	-0.2	-0.7	1	-44	-10		21.8	-4.0	-180	-497	325	-248
US (DXY; 5y UST)		101	0.3	0.5	2	10	5		2.98	0.8	19	58	219	172

	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		4013	0.4	-4	-4	-22	-19		205	-1	-17	-7	2	
Indonesia		7226	-0.7	0	3	20	10		166	5	-12	-3	1	
India		57197	-1.2	-2	0	19	-2		164	-7	3	-5	32	
Philippines		6999	-0.9	0	-2	10	-2		120	4	-13	21	19	
Thailand		1691	0.0	1	1	9	2		0	0	0	0	0	
Malaysia		1602	0.2	0	0	0	2		117	3	-15	-8	0	
Argentina		91496	-1.1	1	1	94	10		1732	44	-62	157	52	
Brazil		114344	0.0	-2	-2	-5	9		276	2	-26	8	-35	
Chile		4912	0.0	0	0	1	14		159	18	4	24	19	
Colombia		1617	-1.2	0	4	25	15		342	0	-4	114	-6	
Mexico		53267	-1.0	-1	-4	9	0		368	27	18	31	36	
Peru		23647	-0.4	0	-7	24	12		181	18	10	6	31	
Hungary		43326	0.1	2	-2	1	-15		145	0	4	6	21	
Poland		61376	-1.5	-4	-5	3	-11		6	-2	-34	-33	-26	
Romania		13004	0.0	1	2	17	0		205	8	2	17	12	
Russia		2238	-1.4	-8	#N/A	#N/A	-38		3411	-577	938	3228	3234	
South Africa		72685	-0.9	-1	-4	9	-1		335	3	-22	-3	-20	
Turkey		2548	-0.3	2	16	89	37		497	-16	-65	14	-81	
Ukraine		519	0.0	0	0	-2	-1		3513	325	151	2957	2754	
EM total		43	-0.5	-5	-6	-21	-12		388	13	-151	22	2	

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

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