



- Credit spreads remain elevated for the US financial sector and CMBS ([link](#))
- ECB president Lagarde outlines consequences of geopolitical fragmentation ([link](#))
- Gilt yields increase as UK wage growth surprises on the upside ([link](#))
- RBA considered 25 bps hike in April; RBA review to trigger legislation changes ([link](#))
- China's Q1 GDP growth beats expectations ([link](#))
- Brazilian assets decline following drop in expected 2023 year-end interest rate ([link](#))

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Upside Chinese growth surprise boosts markets

European equities opened in the green with US equity futures also pointing to a positive start as markets weighed an upside Q1 growth surprise from China, mixed corporate earnings reports and prospects of further central bank tightening. Equity volatility continued to ease while core sovereign yields were mostly lower. In the UK, however, gilt yields ticked higher as bets firmed up for a 25bps hike by the BoE in May, following strong wage growth data released this morning. Elsewhere on the central bank front minutes from the Reserve Bank of Australia's April meeting showed that a 25bps hike was discussed before a decision was taken to leave rates unchanged, and Bank of Indonesia kept the 7-day benchmark rate unchanged at 5.75%, as expected. In EMEA, attention is turning to the elections in Türkiye, scheduled for May 12.

Key Global Financial Indicators

Last updated: 4/18/23 12:49 PM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		4151	0.3	1	6	-5	8	-2
Eurostoxx 50		4401	0.8	2	8	14	16	11
Nikkei 225		28659	0.5	3	5	6	10	8
MSCI EM		40	0.4	1	6	-10	5	-16
Yields and Spreads			bps					
US 10y Yield		3.58	-2.5	15	15	72	-30	158
Germany 10y Yield		2.45	-2.3	14	34	161	-12	222
EMBIG Sovereign Spread		477	-1	-10	-33	74	25	64
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		50.8	0.1	1	2	-5	2	-4
Dollar index, (+) = \$ appreciation		101.7	-0.4	0	-2	1	-2	6
Brent Crude Oil (\$/barrel)		84.5	-0.3	-1	16	-25	-2	-13
VIX Index (% change in pp)		16.9	-0.1	-2	-9	-5	-5	-14

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

Mature Markets

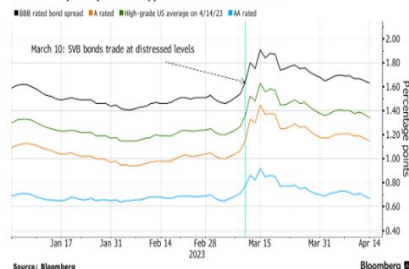
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United States

Yesterday, the **S&P 500** closed marginally higher (+0.3%), with real estate sector significantly outperforming (+2.2%). US Treasury nominal yields rose by 8-9 bps across the yield curve, driven by real yields. Correspondingly, the US dollar appreciated versus major- and emerging market currencies (0.5% and 0.3% respectively).

While credit spreads for most investment-grade borrowers declined to pre-SVB levels (left chart below), **US financial sector and CMBS spreads remain elevated**. The moderation in credit spreads is supported by the strong demand for bonds, despite the lingering risks of a looming recession amid rising rates and the slowing economy. High-grade financial bond spreads decoupled from the overall credit spread index in mid-March and continues offering a sizeable premium to it (middle chart). Similarly, the persistent tensions in the commercial real estate market pushed commercial mortgage-backed security (CMBS) spreads much higher than their traditional benchmarks (e.g., AAA CMBS spread minus single-A corporate bond spread on the right chart).

Credit Spreads Recover From Bank Crisis Shock
US blue-chip risk premia dropped to lowest since March 9



Risk Premium on Bank Debt Remains High After Blowups
Debt in financial sector trades unusually wide to blue-chip credit

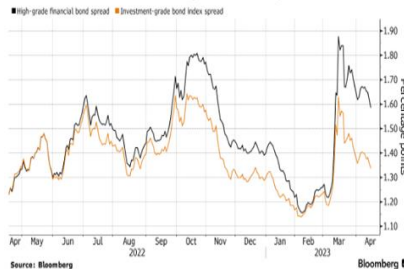
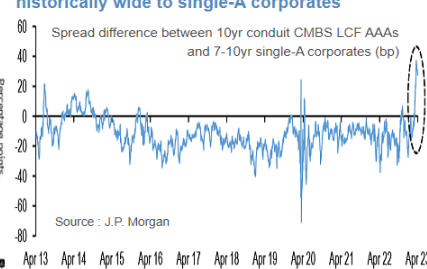


Figure 101: Conduit LCF AAAs still look historically wide to single-A corporates



A JPMorgan survey showed that the majority of its clients believe that the worst of the regional banking crisis is over (left chart below). Additionally, Federal Reserve data suggest that liquidity needs have continued to abate, as the deposit flight has moderated: borrowing at the Fed's lending facilities fell by \$11.4bn, including both the BTFP facility and discount window borrowing (middle chart). However, the news flow continues revealing new signs of moral hazard or risky practices within small and regional banks. Bloomberg reports that First Republic Bank – whose equity prices dropped almost 90% since early March – has been rapidly extending its balance sheet through interest-only mortgages (i.e. significantly postponed principal repayment) for wealthy clients (right chart). As a result, the loans have hampered efforts to find investors or a stronger lender to acquire the bank, which is now leaning on \$30 billion deposited by larger banks.

Figure 5: Is the worst of the regional banking crisis over?

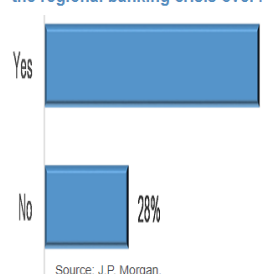
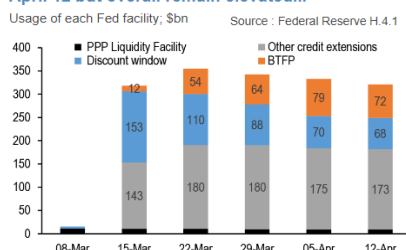
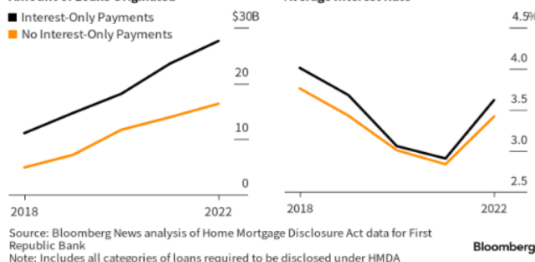


Figure 3: Borrowing at the Fed's lending facilities continues to decline through the week ending April 12 but overall remain elevated...



First Republic's Mortgage Machine Ramped Up
As rates plummeted during the pandemic, the bank's lending soared



Japan

Japanese stocks gained +0.7%, while chip stocks declined following US peers. On **JGB redemption rules**, Finance Minister Shunichi Suzuki stated that he is aware of discussions within the ruling party regarding changing debt redemption rules, but that the finance ministry is not considering specific moves. Bank of Japan (BOJ) Governor Ueda, also speaking in parliament, said that the bank purchases sovereign debt to achieve its 2% inflation target, rather than to help finance government spending and that it does not differentiate between use of bond proceeds. **Yields on 10Y bonds increased +2.3 bps, bond prices dropped across the curve. The yen depreciated -0.2%.**

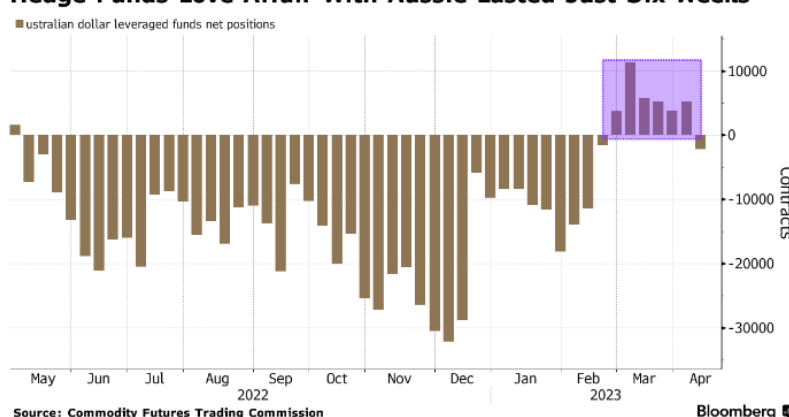
Japan's Bonds Offer Higher Yields Than Hedged Foreign Debt
Yields on Japanese debt and hedged foreign bonds



Australia

Reserve Bank of Australia (RBA) April minutes showed members discussed 25bps hike before deciding on a pause. Relatedly, BNP Paribas noted that Australia's population is recovering fast after Covid and this could add to inflationary pressures, suggesting a rate hike in Q2. Governor Lowe referred to a possibility of population rising to 2%. Separately, Australian Treasurer Chalmers said on Monday that **recommendations made by an independent review of the RBA will**

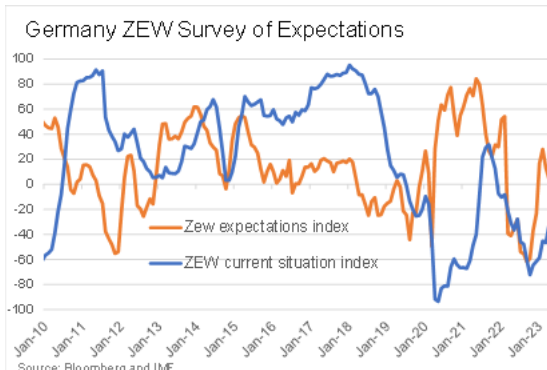
Hedge Funds Love Affair With Aussie Lasted Just Six Weeks



require changes to the bank's operating legislation. The review report is set to be released soon. The review is likely to suggest an overhaul of the RBA's rate-setting board, fewer policy meetings and for the governor to hold press conferences to explain monetary settings, Bloomberg reported. **Australian stocks declined -0.3%; the Australian dollar rose +0.6%, and 10Y bond yields were up +10.4 bps.** Leveraged funds turned short after just a few weeks.

Euro Area

European currencies were strengthening this morning, while equity and bond markets were fairly quiet. The equity market (Stoxx Europe 600) is slightly up (+0.4%), with banking stocks up 1.4%. The euro is strengthening 0.4% vs. the dollar, to 1.1/\$. German 10y bund yields were broadly flat at 2.46%, while Italian spreads are down 2 bps to 181 bps as the **ZEW investor expectations index for March fell to 4.1, much below the 15.6 expectations most likely on inflation and banking issues concerns.** At the same time, the index of current conditions improved.

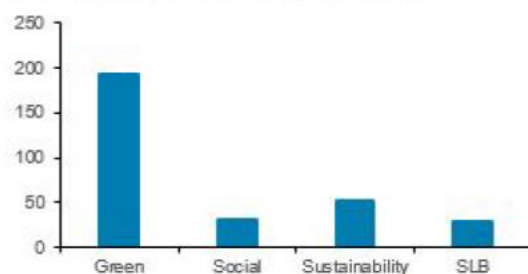


In a speech at a Council on Foreign relations event in New York yesterday ECB president Lagarde said that geopolitical rifts caused by rivalry between the US and China could push up inflation by 5 per cent if global value chains fragment along geopolitical lines. She also said that there might be

more instability as global supply elasticity wanes and that disruption to global supply chains would hit critical sectors such as the electric-car industry. She added that the leading positions of the dollar and euro could also be threatened as some countries could reduce their dependence on the dollar and euro. She added that if countries worked together to secure supply chains or diversify energy production, they could create a virtuous circle of lower volatility, lower inflation, higher investment, and higher growth, but if fiscal policy instead focuses mainly on supporting incomes to offset cost pressures — in excess of temporary and targeted responses to sudden large shocks — that will tend to raise inflation, increase borrowing costs and lower investment in new supply.

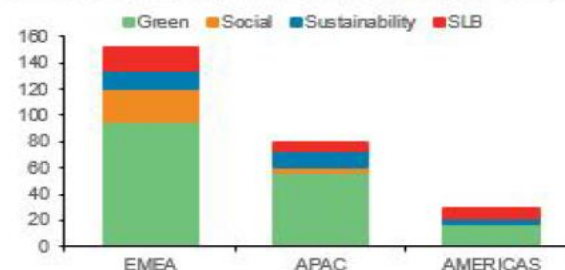
Austria is issuing €3bn in green bonds today (May 2029 maturity). This is part of a dual tranche bond syndication alongside €2bn euros conventional bonds (2053 maturity). Bloomberg reports that the spread on the May 2029 green bond was set 17 basis points below mid-swaps, while books are over €7.5bn. The spread on the October 2053 bond was set 56bps above mid-swaps, with books over €4bn. More generally regarding ESG issuance, **analysts at BNP point out that green bond issuance reached records in Q1, 14% above its 2022 Q1 level, but point out that social bond issuance was substantially lower.** Green bond issuance was mainly driven by European financials and corporates, while issuance is lagging in the US.

Sustainable bond issuance YTD (USDbn)



Sources: Bloomberg, BNEF, BNP Paribas

Sustainable bond issuance YTD, by region (USDbn)



Sources: Bloomberg, BNEF, BNP Paribas

United Kingdom

UK markets are reacting strongly to the latest labor market data, as pay growth surprised significantly to the upside. The British pound is strengthening (+0.5%) vs. the dollar to trade at 1.24 £/\$, and yields on 10y gilts are up 4 bps to 3.72%. While the labor data for March showed evidence of a slowing in hiring, wage growth surprised strongly on the upside. Weekly earnings ex-bonus grew 6.6% annualized in the 3 months to February, above the January reading (6.5%), when consensus expected 6.2%.

Despite the slowing in hiring, the vacancy to unemployed ratio remains well above pre-pandemic levels as vacancies fell (but remain above the pre-pandemic average), and participation increased (but remains below its pre-pandemic level). The number of employees on payrolls rose by 31,000 in March, below expectations for 48,000 and February data was revised significantly down to 39,000 (from 98,000). The unemployment rate rose slightly to 3.8% in the 3 months to February, just above consensus expectations (3.7%). **Markets are pricing in 23 bps in hikes for the May BOE meeting, roughly 4 bps more than yesterday.** The BOE has indeed said that it will look to services inflation and wage data for signs of inflation persistence. March inflation data is due tomorrow (9.8% y/y expected, down from 10.4% in February).

Vacancy to unemployed ratio vs. private sector wage growth



Source: ONS and JP Morgan Research.

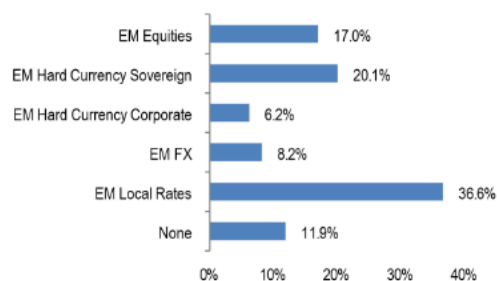
Emerging Markets

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Asian equities declined -0.3% despite the solid China Q1 growth print. Indonesia outperformed +0.5%, Chinese stocks were mixed (Shanghai: +0.2%, Shenzhen -0.1%), other markets closed broadly lower. **Asian currencies were mixed.** South Korean won (-0.6%) and Philippine peso (-0.5%) continued to weaken, followed by Indonesian rupiah (-0.4%), Thai baht strengthened 0.2%. **Bank of Indonesia (BI) kept the 7-day benchmark rate unchanged at 5.75% as expected.** Governor Warjiyo said the BI will continue with its rupiah stabilization measures to offset imported inflation, and that the bank expects the rupiah to strengthen further due to foreign inflows, attractive yields and the economy's robust growth. He also underlined measures to boost lending. 10-year yields were little changed. **In EMEA equities and currencies edged higher as rates fell in line with European markets.** Polish core inflation was slightly above expectations at 12.3% y/y in March (12.2% expected) or 1.3% m/m (1.2% m/m expected) in February. **Latin American equities started the week off on a positive note.** Stocks in Argentina (+2%) led the gains, followed by Chile (+1%), Mexico (+0.6%), and Colombia (+0.3%), while stocks in Brazil fell (-0.3%). Currencies depreciated across the region, with the largest losses in Brazil (-0.7%), Argentina (-0.6%), and Colombia (-0.5%).

Within the EM asset class, investors at last week's JP Morgan meeting in DC were more inclined to add to EM local bonds. Investors also indicated that they were most inclined to reduce risk in China (28%), then Turkey (22%) and Frontier Markets (16%).

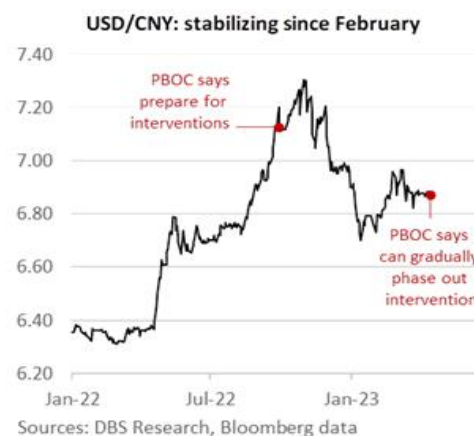
Exhibit 16: Which EM asset class are you most inclined to add risk in?



Source: J.P. Morgan Strategic Research.

China

China's Q1 GDP growth rebounded to 4.5%/y/y in 1Q 2023, ahead of expectations (previous: 2.9%, consensus: 4.0%). On a q/q seasonally adjusted basis, growth accelerated to 2.2%q/q in Q1 (previous: 0.0%). Growth was led by services (+5.4%), as pent-up demand fueled contact-intensive segments like accommodation & catering (+13.6%). Separately, China's broad fiscal deficit rose 27%/y/y to \$230bn in Q1 2023 despite a recovery in the economy. General public revenue was almost flat (+0.5%), while general public expenditure climbed +6.8%. **Chinese stocks were mixed** (Shanghai: +0.2%, Shenzhen -0.1%), **Chinese equities gained +1.4%, 10Y bond yields and renminbi were little changed.**



Türkiye

The lira has weakened by only 1% this month but the 1-m option volatility on the lira jumped 28 points to 38 as the presidential and parliamentary elections on 14 May are now included in the tenor. The 1-m currency implied yield trades at 73% as analysts believe that a large macro adjustment is inevitable regardless of electoral outcomes. JPMorgan expects 2023H2 to mark the start of a correction of accumulated imbalances such as the elevated inflation and the large current account deficit, which has supported bullish positioning in US dollar bonds and CDS spreads. In case of a return to orthodox inflation-targeting policies, JPMorgan expects the central bank to hike the policy rate to 30% in 2023Q3 (with upside risks), from 8.5% currently. **The opposition coalition tends to have a narrow lead in polls, but contacts are hesitant to have a high-conviction outlook on the elections.** Some contacts also see a high likelihood of a divided outcome between president and parliament.

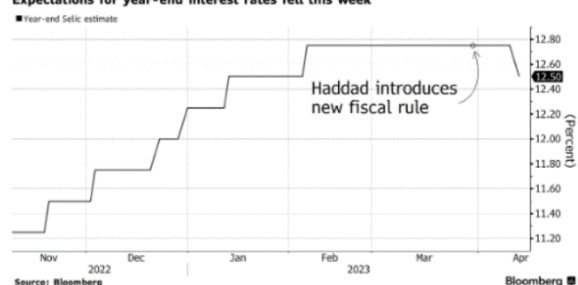
Türkiye: 5-yr U.S. CDS (bps) and yield on U.S. dollar bond (%)



Brazil

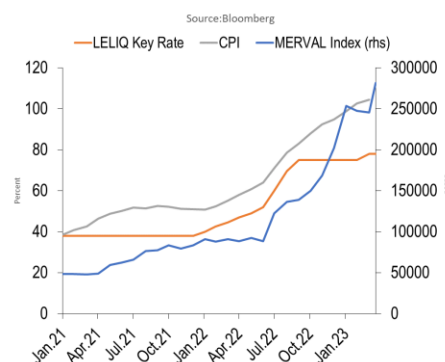
Brazilian assets decline following drop in expected 2023 year-end interest rate. The central bank survey of economists revealed that analysts had cut the end-of-year Selic rate to 12.5%, from 12.75%. The interest rate currently sits at 13.75%, which has been held steady since August 2022, after 11.25% of hikes since March 2021. Inflation has fallen to 4.65% in March, approaching the 3% target, from 12.13% in April 2022. The central bank is expected to start cutting rates in September by 25 bps, followed by two consecutive 50 bps cuts. The Brazilian real (-0.7%) led the regional currency depreciation and Brazil's equity index was the only equity index (-0.3%) to decline in Latam Monday.

Brazil Analysts Bet on Faster Rate Cuts
Expectations for year-end interest rates fell this week



Argentina



















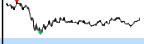







Stocks in Argentina continue to advance amid the highest rate of inflation since 1991. Inflation came in hotter than expected at 104.3%/y/y (versus expected 103.2%), up from 102.5% in February. In the meantime Argentina's S&P Merval Index, increased by 2% Monday, for its 7th consecutive trading day of gains. The index is up 39.2% year-to-date, outperforming all other emerging markets.



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Global Financial Indicators

4/18/23 12:49 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4151	-0.2	1	6	-5	8
Europe		4401	0.8	2	8	14	16
Japan		28659	0.5	3	5	6	10
China		4162	0.3	2	5	1	8
Asia Ex Japan		68	0.6	1	5	-6	5
Emerging Markets		40	0.4	1	6	-10	5
Interest Rates			basis points				
US 10y Yield		3.58	-2.5	15	15	72	-30
Germany 10y Yield		2.45	-2.3	14	34	161	-12
Japan 10y Yield		0.48	-1.0	1	19	23	5
UK 10y Yield		3.73	3.5	18	44	184	5
Credit Spreads			basis points				
US Investment Grade		157	-1.8	-5	-25	13	-2
US High Yield		464	-4.0	-22	-76	76	-16
Exchange Rates			%				
USD/Majors		101.71	-0.4	0	-2	1	-2
EUR/USD		1.10	0.4	1	2	2	2
USD/JPY		134.0	-0.4	0	2	5	2
EM/USD		50.8	0.1	1	2	-5	2
Commodities			%				
Brent Crude Oil (\$/barrel)		84.5	-0.3	-1	16	-13	0
Industrials Metals (index)		160	0.8	4	4	-25	-3
Agriculture (index)		71	0.4	2	5	-10	2
Implied Volatility			%				
VIX Index (% change in pp)		16.9	-0.1	-2.2	-8.7	-5.3	-4.8
US 10y Swaption Volatility		115.3	0.0	-12.3	-47.2	-5.8	-10.4
Global FX Volatility		9.2	0.0	-0.7	-1.7	0.2	-1.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		186	1.3	-2	-18	-21	-19
Italy		181	-2.5	-6	-14	17	-34
Portugal		83	-1.4	-3	-10	-17	-19
Spain		101	-1.3	-4	-11	7	-8

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

Emerging Market Financial Indicators

Last updated: 4/18/2023 12:52 PM	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		6.88	0.1	0.2	0	-7	0		3.1	-1.0	9	11	26	8
Indonesia		14845	-0.4	0.3	3	-3	5		6.7	1.1	2	-23	-31	-27
India		82	-0.1	0.1	1	-7	1		7.5	4.1	9	7	(29.5)	1
Philippines		56	-0.5	-2.2	-3	-7	-1		6.0	0.0	0	-3	70	-5
Thailand		34	0.2	-0.2	-1	-2	1		2.6	5.5	8	26	-1	0
Malaysia		4.43	-0.3	-0.3	1	-4	-1		3.9	3.5	3	-4	-26	-15
Argentina		216	-0.6	-1.6	-6	-47	-18		90.8	103.0	166	-12	4065	258
Brazil		4.94	-0.7	2.5	7	-6	7		12.4	-4.2	-38	-85	40	-15
Chile		801	-0.5	2.3	4	2	6		5.3	0.0	5	32	-112	-4
Colombia		4437	-0.5	2.7	9	-16	9		8.9	16.0	11	-13	86	-84
Mexico		17.98	0.2	1.1	5	10	8		8.5	-4.4	17	-6	-21	-22
Peru		3.8	-0.2	0.0	0	-1	1		7.5	3.7	4	-20	18	-43
Uruguay		39	-0.4	-0.6	1	6	2		10.2	-2.1	-1	-10	96	-43
Hungary		339	0.5	1.8	9	2	10		8.5	-4.0	17	5	226	-115
Poland		4.21	0.7	1.6	4	2	4		5.5	-7.6	13	23	21	-65
Romania		4.5	0.5	0.5	2	2	3		7.2	0.0	7	0	81	-45
Russia		81.5	0.4	0.0	-6	-1	-9							
South Africa		18.2	0.9	1.3	2	-19	-6		9.3	-4.0	9	36	123	13
Turkey		19.40	0.0	-0.5	-2	-25	-4		12.2	0.0	-25	76	-1030	234
US (DXY; 5y UST)		102	-0.4	-0.5	-2	1	-2		3.67	-2.8	14	17	88	-33

	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		4162	0.3	2	5	1	8		194	-1	12	-12	17
Indonesia		6822	0.5	0	2	-5	0		137	-19	-29	-24	-3
India		59727	-0.3	0	3	6	-2		153	-14	-24	-18	11
Philippines		6465	-0.6	0	0	-8	-2		112	-20	-25	-4	15
Thailand		1594	-0.4	1	2	-5	-4		0	0	0	0	0
Malaysia		1432	-0.2	0	1	-9	-4		101	1	-2	-13	1
Argentina		281295	2.0	10	27	208	39		2426	-4	29	738	221
Brazil		106016	-0.2	4	4	-8	-3		269	-11	-27	-5	-5
Chile		5470	1.0	4	7	12	4		136	-10	-20	-5	4
Colombia		1257	0.3	3	13	-22	-2		399	-5	-50	57	27
Mexico		54779	0.6	1	5	1	13		387	-10	-36	46	6
Peru		22395	-0.4	1	4	-5	5		183	-9	-15	20	3
Hungary		44120	0.7	-1	8	3	1		227	-4	-32	82	5
Poland		62702	1.7	5	11	-2	9		80	10	-29	72	7
Romania		12500	0.3	1	1	-3	7		253	-1	-30	56	-2
South Africa		79296	0.7	2	9	8	9		405	-17	-27	73	38
Turkey		5052	-0.1	-1	-2	101	-8		482	-23	-9	-31	42
Ukraine		507	0.0	0	0	-2	-2		5102	47	164	1914	1023
EM total		40	0.6	1	6	-10	5		408	-8	-25	33	32

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

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