



- **US markets set new records in Q1 2024** ([link](#))
- **EU stocks reach an all-time high** ([link](#))
- **ECB rate cut in June fully priced** ([link](#))
- **UK stocks mark another record level** ([link](#))
- **Liquidity improves in US corporate bond markets** ([link](#))
- **Special Feature: EM Local Currency Bond Monitor** (attached)

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Markets in Europe reach record highs

Equity markets in the euro area and the UK reached new record highs. Equity index futures in the US pointed to a second day of losses after strong ISM data yesterday led to a sharp rise in Treasury yields. However, the first quarter of 2024 marked the best start for the S&P 500 since 2019. Meanwhile, investors are reevaluating their expectations for Fed rate cuts, with the Fed Funds futures market now predicting fewer than the three cuts implied by the Fed's latest dot plot. Elsewhere, the strength of the dollar has become an important factor for markets, especially for emerging market central banks whose rate cuts may be challenged by renewed inflationary pressures. Looking ahead, key data on euro area inflation and the US employment situation will set the tone for future market developments.

Key Global Financial Indicators

Last updated: 4/2/24 7:58 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5244	-0.2	0	2	28	10
Eurostoxx 50		5093	0.2	1	4	20	13
Nikkei 225		39839	0.1	-1	0	41	19
MSCI EM		41	0.2	1	2	4	2
Yields and Spreads			bps				
US 10y Yield		4.36	5.2	13	18	89	48
Germany 10y Yield		2.39	9.6	4	-2	10	37
EMBIG Sovereign Spread		335	-6	-9	-33	-149	-49
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.4	0.1	0	-1	-9	-4
Dollar index, (+) = \$ appreciation		104.9	-0.1	1	1	2	4
Brent Crude Oil (\$/barrel)		88.5	1.3	2	6	11	15
VIX Index (% change in pp)		14.0	0.4	1	1	-5	2

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

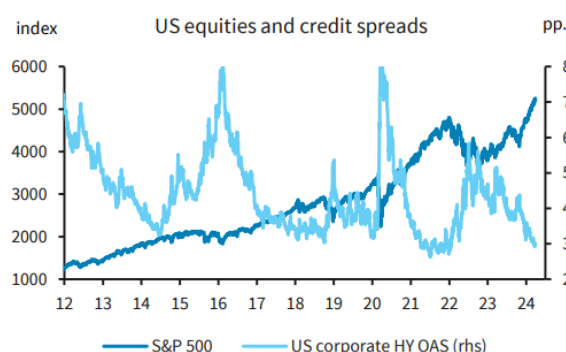
Mature Markets

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United States

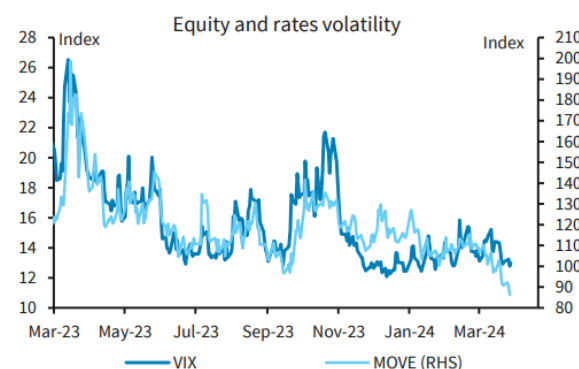
Markets in the US set new records in the first quarter of 2024, with the S&P 500 rising by over 10%, the best result since 2019. Credit spreads are down to their narrowest levels in many years. Both equity and interest rate volatility are significantly lower. The stronger than expected US economy, optimism about the potential impact of artificial intelligence (AI) on economic productivity and corporate earnings that have exceeded forecasts have all contributed to a widespread feeling of optimism in US markets. Investors appear to have accepted that interest rates will be higher than originally forecasted and that Fed rate cuts will be more limited, on the basis that these changes are justified by the robust US economy. The belief that inflation will be successfully contained further supports risk sentiment.

FIGURE 1. S&P 500 surged 10% in Q1 as it rides the waves of the AI boom and optimism seen in many markets...



Source: Bloomberg, Barclays Research

FIGURE 2. ...while implied equity volatility has rarely been lower, and rates volatility has also dropped sharply



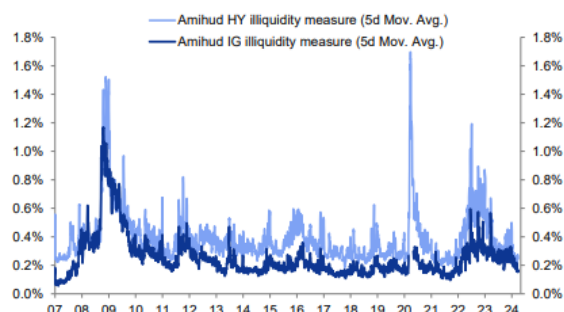
Source: CBOE, Haver Analytics, Barclays Research

Liquidity in US corporate bond markets has improved, according to analysis by Goldman Sachs.

Measures of illiquidity are close to their most favorable levels ever, while bid-ask spreads have narrowed significantly as markets become more active. Turnover in the secondary market is up sharply as buyers and sellers have increase trading volume. Secondary market liquidity has also been boosted by greater dealer participation, as banks and other counterparties are assigning more space on their balance sheets to holding bond inventory and are more willing to take on market risk due to strong investor demand. Steadily tightening credit spreads and a more optimistic view of the US economy continue to propel US credit markets to new heights.

Exhibit 15: The Amihud illiquidity measure is hovering near all-time lows in both the USD IG and HY markets...

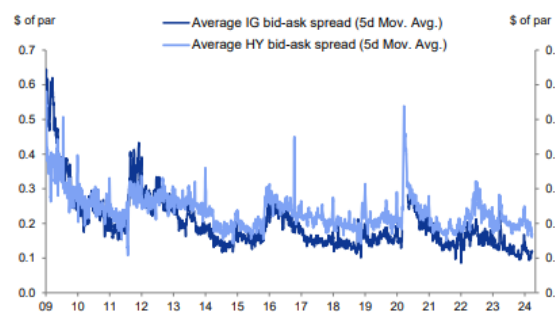
5-day moving average of the Amihud illiquidity measure in the USD IG and HY markets



Source: FINRA TRACE, Goldman Sachs Global Investment Research

Exhibit 16: ...The same is true for bid/ask spreads

5-day moving average of bid/ask spreads in the USD IG and HY markets



Source: FINRA TRACE, Goldman Sachs Global Investment Research

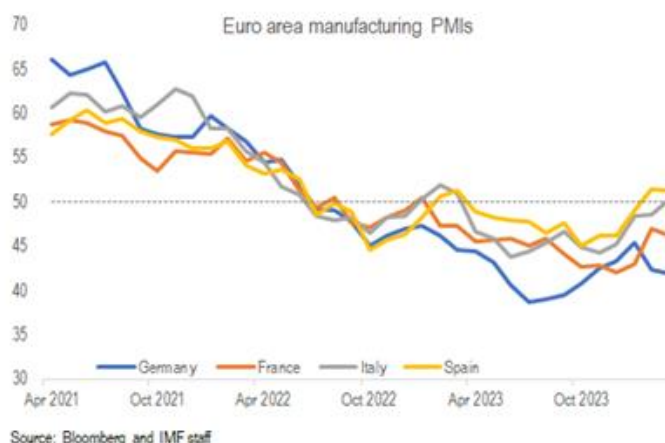
Euro Area

European equities edged higher this morning with the STOXX 600 index up 0.3%, to reach a new record high in early morning trading, led by gains in the energy (+2.2%) and information technology (+1.6%) sectors. The euro was weaker (-0.1%) against the dollar, trading at around 1.07. **Euro area sovereign yields were wider this morning, taking their cue from yesterday's sell-off in US Treasuries** as markets adjusted their expectations of the amount of easing by the Fed. This morning, 10-year bund yields were up by 5bps at 2.35% and 10Y Italian BTP spreads over 10Y bunds were wider (+4bps) at 142bps.

Consumer inflation expectations declined in February.

Ahead of tomorrow's March euro-zone inflation print, data from the ECB this morning showed that consumers expect prices to rise by 3.1% y/y over the next twelve months, down from 3.3% y/y in January. According to the ECB, today's reading is the lowest level since the start of the war in Ukraine in February 2022. There was little immediate reaction to the data release as markets remain focused on tomorrow's euro-zone inflation data. Consensus expectations are for headline inflation to slow further to 2.5% y/y in March, down from 2.6% previously.

Ahead of next week's policy meeting, where no change in rates is expected, **markets are pricing in roughly 92bps of ECB rate cuts in 2024, with a 25bps rate cut in June fully priced.** Elsewhere, the final euro-area March manufacturing PMI printed at 46.1 (vs 45.7 prelim). March manufacturing PMI data for Italy came in better than expected at 50.4 (48.8 exp, 48.7 prior), while France's final March manufacturing PMI printed at 46.2 (vs 45.8 prelim) and similar data for Germany came in at 41.9 (vs 41.6 prelim), with limited market reaction to the data.



United Kingdom

The pound neared a four-month low at 1.26 as markets expect more rate cuts from BoE than Fed. The probability of a 25 bps cut by the BoE in June is around 70% up from around 50% the week before the March MPC meeting. Elsewhere, on the data front, UK house prices fell for the first time in three months. According to the Nationwide Building Society, average house prices dropped 0.2% in March (+0.3% exp, +0.7% prior) suggesting that higher mortgage rates may be impacting affordability. **10Y gilts were higher (+8bps) at 4.01%. Meanwhile, the FTSE 100 index is at an all-time high.**



Japan

Stocks were mixed as the Nikkei gained while the Topix fell by 0.3%. However, semiconductor shares rallied by 3.5% after the government announced measures to boost the chip making sector. Meanwhile, Finance Minister Suzuki warned yet again that the authorities would intervene to support the yen if necessary. The currency remains just shy of 152 versus the dollar, close to its weakest level since 1990.

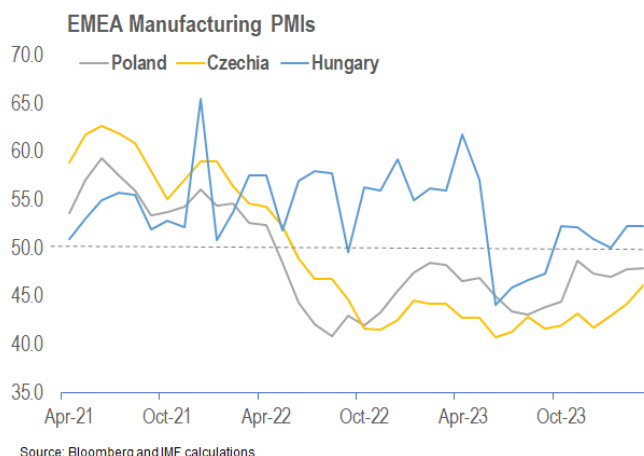
Emerging Markets

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EMEA equities were higher and currencies mostly stronger. Equities outperformed in Poland (+1.3%), Czechia (+0.8%) and Hungary (+0.8%), on the backdrop of positive news released today on March PMIs. **Most Asian markets were higher, while currencies depreciated.** Interest rates were up in the wake of the US Treasury selloff. **Latin American currencies weakened across the region on a day when the dollar strengthened as US markets fine-tuned their rate expectations following a stronger than expected ISM report in the US.** The Brazilian real (-0.8%) and equity markets (-0.9%) were the worst performers in the region.

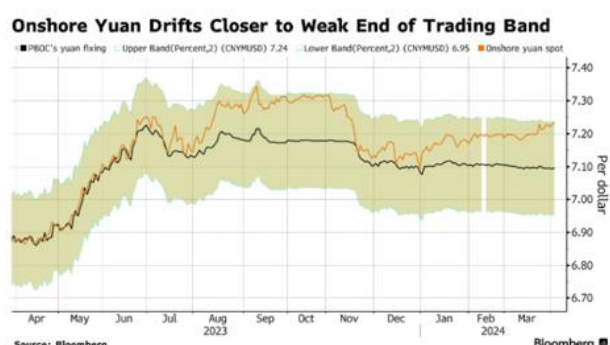
Central and Eastern Europe

Equities were stronger in CEE this morning after the release of positive March PMI figures. In Poland, the March manufacturing PMI rose to 48 from 47.9 in February, adding to the positive surprise from lower than expected March inflation figures (1.9% y/y against expected 2.3% y/y) published last Friday. Policymakers are due to meet on Thursday this week. Consensus expectations are for rates to be kept unchanged at 5.75% in Poland. Elsewhere, March manufacturing PMI data were unchanged at 52.3 for Hungary and displayed a positive trend in Czechia, where the March manufacturing PMI rose to 46.2 from 44.3 in February 2024.



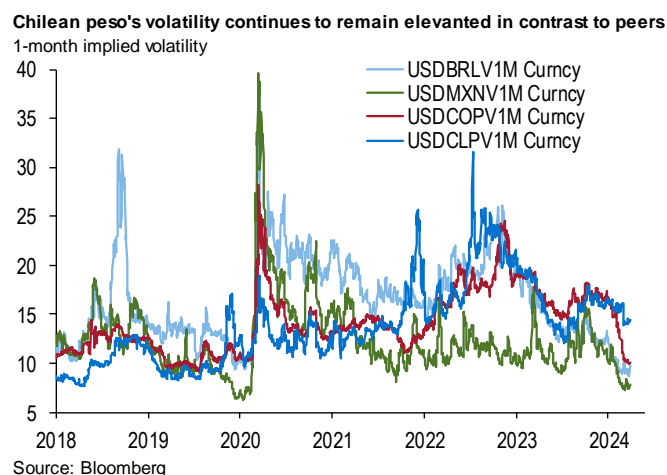
China

Chinese equities were mixed (CSI: -0.4%, Hang Seng China Enterprise +2.4%). Chinese shares in Hong Kong SAR rallied and caught up with gains seen earlier in onshore market after trading resumed after the holidays. China Vanke's shares (-12.9%) tumbled to a record low, after it reported a sharp profit decline and declared no dividend payout for the first time in 31 years. Market participants said they were briefly blocked from some onshore yuan swap transactions that implied the currency was outside the weak end of its fixed trading band against the dollar, Bloomberg reported.



Chile

The Chilean peso's volatility remains elevated compared to regional peers. The currency has been one of the worst performers against the US dollar so far this year (-10.8%). Higher copper prices (+4.7% YTD), which have historically been a key driver of the currency's performance, have not been supportive of the peso so far this year. The dovish stance of the central bank has been a key driver of the peso's weakness where policymakers' reaction function seems to be more attuned to domestic data rather than the monetary policy developments in the US. The extent to which the depreciation of the currency might derail the deflationary process could trigger a change in the reaction function of the central bank. As uncertainty around the currency lingers, the implied volatility of the currency remains above pre-pandemic levels in contrast to its regional peers. Chile will hold its central bank meeting later today.



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Deputy Division Chief), Nassira Abbas (Deputy Division Chief), and Caio Ferreira (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (New York Representative), Benjamin Mosk and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Research Officer), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Sonal Patel (Senior Financial Sector Expert-London Representative), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), Ying Xu (Economist), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Sammeta (Administrative Coordinator) are responsible for the word processing and production of this monitor.

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Global Financial Indicators

4/2/24 8:04 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5244	-0.2	0	2	28	10
Europe		5093	0.2	1	4	20	13
Japan		39839	0.1	-1	0	41	19
China		3581	-0.4	1	1	-12	4
Asia Ex Japan		68	0.5	1	2	1	2
Emerging Markets		41	0.2	1	2	4	2
Interest Rates			basis points				
US 10y Yield		4.36	5.2	13	18	89	48
Germany 10y Yield		2.39	9.6	4	-2	10	37
Japan 10y Yield		0.75	1.0	1	3	40	14
UK 10y Yield		4.06	13.1	9	-5	57	53
Credit Spreads			basis points				
US Investment Grade		120	0.0	0	-10	-44	-14
US High Yield		346	-0.9	-1	-22	-137	-40
Exchange Rates			%				
USD/Majors		104.94	-0.1	1	1	2	4
EUR/USD		1.08	0.1	-1	-1	-1	-3
USD/JPY		151.7	0.0	0	1	14	8
EM/USD		46.4	0.1	0	-1	-9	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		88.5	1.3	3	7	17	16
Industrials Metals (index)		142	1.2	1	3	-11	0
Agriculture (index)		60	0.2	0	3	-12	-4
Implied Volatility			%				
VIX Index (%, change in pp)		14.0	0.4	0.9	0.9	-4.7	1.6
Global FX Volatility		6.7	0.0	0.2	0.2	-3.7	-1.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		106	-2.6	3	-2	-87	2
Italy		142	4.0	12	-5	-38	-25
Portugal		70	-1.4	2	-4	-14	6
Spain		85	-1.4	2	-5	-16	-12

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

Emerging Market Financial Indicators

Last updated: 4/2/2024 8:05 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)					YTD	Level		Change (in basis points)				
	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		7.24	-0.1	-0.3	-1	-5	-2		2.3	-4.6	-4	-6	-82	-21	
Indonesia		15897	0.0	-0.7	-1	-6	-3		6.7	-0.9	-1	6	-11	20	
India		83	0.0	-0.1	-1	-1	0		7.2	6.1	1	3	(27.1)	1	
Philippines		56	-0.2	-0.1	-1	-3	-2		5.4	0.0	0	0	-55	-20	
Thailand		37	-0.2	-0.9	-2	-7	-7		2.5	4.0	1	-2	-5	-16	
Malaysia		4.75	-0.5	-0.7	-1	-7	-3		3.9	1.1	1	1	-3	13	
Argentina		858	-0.1	-0.5	-2	-76	-6		52.7	0.0	-176	-1719	-3440	-3368	
Brazil		5.04	0.4	-1.1	-2	1	-4		11.2	4.2	20	46	-166	83	
Chile		984	0.1	-0.3	-1	-18	-10		5.2	0.0	7	6	8	32	
Colombia		3864	-0.1	0.9	2	19	0		8.0	0.0	21	36	-58	34	
Mexico		16.61	0.0	0.2	2	9	2		8.9	0.0	8	19	50	40	
Peru		3.7	-0.1	-0.5	1	1	-1		7.5	-1.0	24	69	-1	87	
Uruguay		38	-0.6	0.2	3	2	3		9.0	1.4	4	0	-132	-52	
Hungary		368	0.0	-0.8	-1	-6	-6		6.6	1.6	14	53	-195	81	
Poland		3.99	0.1	-0.4	0	7	-1		5.1	12.5	-1	28	-36	62	
Romania		4.6	0.0	-0.8	-1	-2	-3		6.4	0.0	-4	2	-87	16	
Russia		92.6	-0.1	-0.1	-1	-15	-3								
South Africa		18.8	0.7	0.9	1	-5	-2		9.8	5.2	5	34	70	72	
Türkiye		32.20	0.2	0.0	-2	-40	-8		26.2	-20.0	-77	-110	1567	-59	
US (DXY; 5y UST)		105	-0.1	0.6	1	2	4		4.37	4.6	14	21	79	52	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)					YTD	Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	7 Days	30 Days	12 M			
									basis points						
China		3581	-0.4	1	1	-12	4		147	-3	0	-43	-11		
Indonesia		7237	0.4	-2	-1	6	0		88	-8	-21	-72	-8		
India		73904	-0.1	1	0	25	2		106	-1	9	-62	-10		
Philippines		6960	-0.3	1	1	7	8		74	-9	-17	-58	-6		
Thailand		1379	0.0	0	1	-14	-3		0	0	0	0	0		
Malaysia		1548	0.3	1	1	8	6		83	-2	4	-18	-2		
Argentina		1213485	-0.1	2	21	401	31		1438	18	-193	-875	-475		
Brazil		126990	-0.9	0	-2	25	-5		209	0	-3	-64	-6		
Chile		6638	-0.1	2	2	25	7		120	-3	-13	-28	-5		
Colombia		1355	1.7	3	5	17	13		291	2	-10	-94	20		
Mexico		57653	0.5	2	4	7	0		309	-5	-15	-79	-25		
Peru		28273	-0.3	-4	0	29	9		139	2	-5	-55	-5		
Hungary		66005	0.9	1	0	56	9		145	-3	-17	-94	-4		
Poland		83540	1.0	3	2	46	6		93	-2	-6	11	-4		
Romania		17041	0.1	2	6	41	11		176	-5	-25	-87	-25		
South Africa		74697	0.2	2	3	-2	-3		348	-5	-5	-55	40		
Türkiye		9209	0.6	5	1	91	23		292	-18	-33	-188	-22		
Ukraine		#N/A	0.0	#N/A	#N/A	#N/A	#N/A		3518	57	-358	-1452	-486		
EM total		41	1.4	1	2	4	2		288	-8	-31	-126	-57		

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

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