GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, APRIL 2, 2025

LEAD EDITOR: SANJAY HAZARIKA

- **US equity and corporate bond markets diverge on recession risk** (link)
- **Stocks in the US travel and hospitality sectors are being hit hard** (link)
- **Foreign investors could retreat from US equities** (link)
- **Euro Area stocks decline ahead of US tariffs** (link)
- **Chinese corporate earnings beat forecasts** (link)
- **Bond yields in India drop to three-year low on RBI bond purchase plans** (link)

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Markets pull back as tariff deadline looms

Equity makets across the globe were lower ahead of the US tariff announcements due later this afternoon, and the dollar weakened again. Government bond yields in the US and euro area were lower on continued safe haven buying. Analysts are marking down their targets for the major international equity indexes on expectations that rising tariffs and retaliatory actions will hurt corporate earnings and slow the global economy. However, credit spreads for corporate bonds in the US and euro area remain very tight, suggesting a divergence between equity and bond markets in terms of prospects for their respective economies. Meanwhile, corporate earnings in China were better than expected, while government bond yields in India declined on news that the central banks plans to buy a large amount of bonds. Inflation in Ghana continued to be higher than expected.

Key Global Financial Indicators

Last updated: 4/2/25 7:52 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				**%**			**%**
S&P 500		5633	0.4	-2	-5	8	-4
Eurostoxx 50		5273	-0.9	-3	-3	5	8
Nikkei 225		35726	0.3	-6	-5	-9	-10
MSCI EM		44	0.3	-2	1	6	5
Yields and Spreads				**bps**			
US 10y Yield		4.15	-2.3	-21	-6	-20	-42
Germany 10y Yield		2.66	-2.4	-13	26	26	30
EMBIG Sovereign Spread		347	-2	18	19	12	22
FX / Commodities / Volatility				**%**			
EM FX vs. USD, (+) = appreciation		44.7	0.1	0	2	-4	4
Dollar index, (+) = $ appreciation		104.1	-0.2	0	-3	-1	-4
Brent Crude Oil ($/barrel)		74.2	-0.4	1	1	-17	-1
VIX Index (%, change in pp)		23.0	1.2	5	3	8	6

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

Mature Markets

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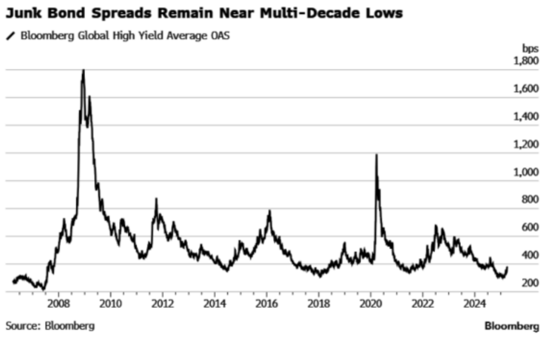
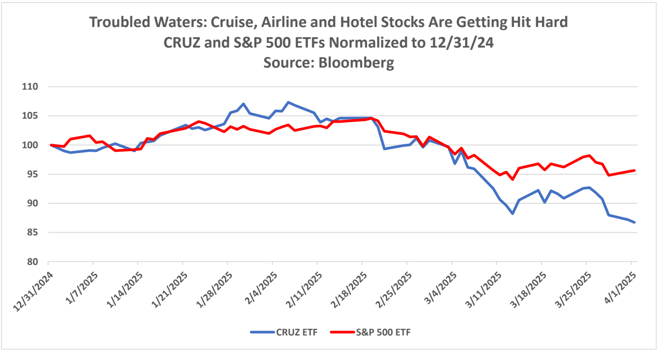
United States

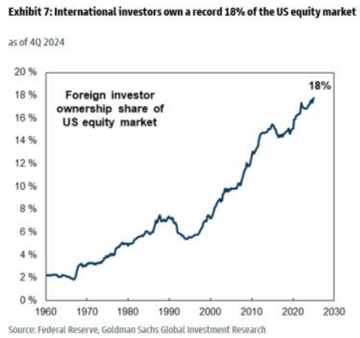
The US equity and corporate bond markets are diverging in their assessment of US recession risk. While US equities are in the red so far in 2025 and are underperforming most other major markets, credit spreads in the corporate bond markets remain very tight. Even the high yield (HY) bond market's spreads are near their lowest level in decades. Moreover, the corporate bond market overall is thriving, with heavy new issuance being eagerly bought up by investors and ample liquidity in day-to-day trading. In contrast, the equity market has been beset by heavy losses, disappointing equity launches and other signs of stress. Analysis by JP Morgan finds that recent S&P 500 price action implies a probability of a recession of 33%, while price trends in the corporate bond market imply odds of recession of 9–12%. Some analysts think the corporate bond market is at risk of a rude awakening when US tariffs hit the economy. Others are more optimistic, pointing to the strong balance sheets and robust profitability of US corporations.



The US travel and hospitality sectors are under severe pressure in the midst of the volatility induced by the prospect of tariffs. The shares of cruise companies, airlines and hotel companies are doing much worse than the overall market. The price of the Defiance exchange traded fund (ETF) of cruise, airline and hotel companies is down more than 13% YTD, compared to the iShares S&P 5000 ETF, which is down just over 4% YTD (prices are normalized to 12/31/24). Analysts point to reduced tourist traffic to the US as well as reduced travel by US residents abroad as causes for the problems facing the travel and hospitality sectors. Bloomberg reports that the hotel company Accor has flagged a 25% decline in bookings by French tourists in the US. Bloomberg also cited findings by Goldman that foreign arrivals in US airports were down by 11%. Other analysts think that the prospect of a recession is also playing a role, as consumers reduce their spending ahead of a potential slowdown in the economy.

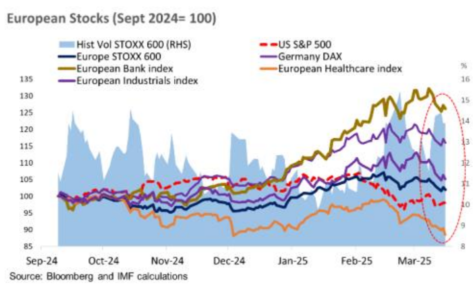


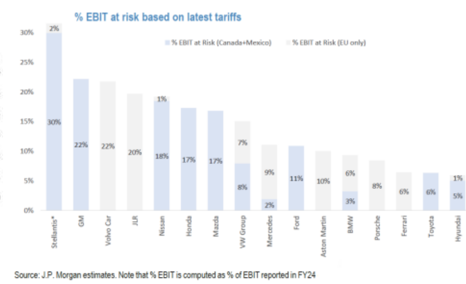
Some analysts expect foreign investors to pull back from US equities. The improved growth outlook for the euro area and the worsening outlook for the US in the shadow of tariffs could lead to a reallocation out of the US market. Foreign holdings of US equities reached an all-time high of 18% recently, as US companies accounted for a record high 57% of global market capitalization (and 43% of global earnings). However, the share has dropped to 54% in the midst of the recent selloff and the euro area equities are now massively outperforming the US, with the Euro Stoxx 600 more than 10% ahead of the S&P 500 so far in 2025. In this situation, even US investors are turning away from the US market and putting money to work in the euro area and other markets.



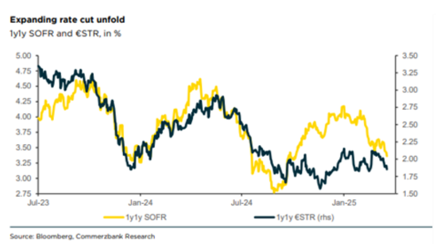
Euro Area

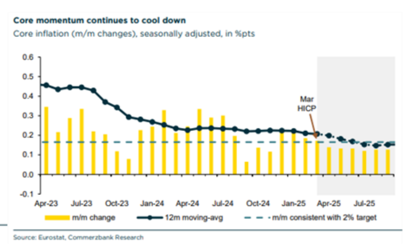
European equities slid this morning, following mixed Asian markets overnight and mirroring lower US equity futures as uncertainty prevails among investors ahead of today's tariffs announcements. The STOXX 600 index edged lower by -0.7% this morning, dragged down by losses in the health care (-2.1%), industrial (-1%) and real estate (-0.8%) sectors, with the banking sector also down by -0.6%. The automobile sector continued to adjust lower (-0.6%) as analysts at JP Morgan see European automakers significantly impacted by US tariffs, with the Stellantis group among the most affected (up to 30% of EBIT at risk given operations in Mexico).





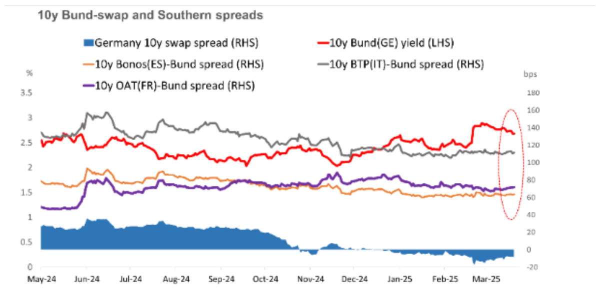
The euro was little changed against a broadly weaker dollar this morning, continuing to trade at around $1.08/€. After yesterday's Eurozone inflation data came in a touch below expectations (headline inflation at 2.2% y/y and core inflation down to 2.4% y/y in March, vs. est. 2.5%) Crédit Agricole forecasts that headline inflation will stabilize slightly above 2% in 2025, with core inflation decreasing gradually from 2.3% in 2025 to 2% in 2026. Their analysts see tariffs adding about 9bps to headline inflation and continue to believe that the ECB will pause in April and carry out a final cut in June, leaving the policy rate at 2.25% for the rest of 2025.





European government bond yields edged lower this morning across tenors, with the curve marginally bull-steepening as the 2y Bund yields were -3bps down to 1.98% while the 10y yields declined by -2bps to 2.66%. Analysts at Deutsche Bank maintain a constructive view on European government bonds, noting resilience of the spreads after recent sharp repricing in Bund yields following

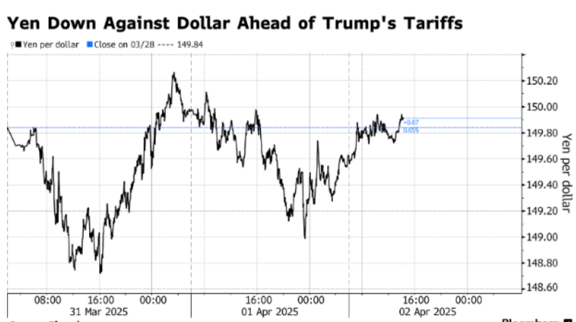
Germany's fiscal measures. They see Southern countries having improved economic fundamentals significantly since the Eurozone debt crisis and that, although France faces deteriorating deficit and political uncertainty, increased defense spending could provide a "geopolitical premium" supporting French bonds; analysts dismiss fragmentation risk pointing to possible ECB interventions (e.g., slowing QT) as a credible backstop.



Source: Bloomberg and IMF calculations

Japan

The yen depreciated against the dollar (-0.02%) on tariff risks, while market contacts expect it to appreciate to 140/$ this year due to higher demand for safe assets. Strategists believe the yen offers the best currency hedge against US recession risks, while economists suggest that potential large tariffs on Japan could lead the BOJ to pause rate hikes. Hedge funds have trimmed their bearish positions on the yen this year but remain net short. BOJ governor Ueda acknowledged that US tariffs could significantly impact trade activity and sentiment. Other officials indicated that a May rate hike might be premature due to the need to assess the impact of US tariffs and ongoing wage talks. Today, the stock market gained (Nikkei 225: +0.3%), though bank shares declined (-1.3%) as investors were cautious of tariff risks and unwound positions built on hopes of rate hikes.



Source: Bloomberg

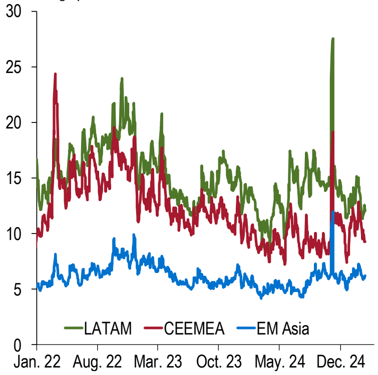
Emerging Markets [back to top]

EMEA equities were lower and currencies were mixed. The budget standoff in South Africa continued. **EM Asian equities were mixed ahead of the upcoming tariff announcements as the Korean market declined (-0.6%) while the Philippines gained (+1.1%).** EM Asian currencies appreciated slightly against the dollar with the Korean won outperforming due to stronger-than-expected inflation, supporting the case for the BOK to hold rates at its next policy meeting. **Latin American currencies appreciated versus the dollar ahead f the tariff announcements.** Government bond yields followed US Treasuries lower.

Emerging Market Currencies

Emerging market currency volatility remains low despite the risk of the US tariff announcements. EM FX options markets suggest that investors are not too worried about volatility in currency markets as a result of any announcements. Implied volatility for one-week options continue to hover around the lowest levels over the last 2.5 years. This could be because investors may be finding it difficult to price risk premia. The weakness of the dollar in 2025 has also played a role in suppressing EM FX volatility, as US economic data continue to weaken.

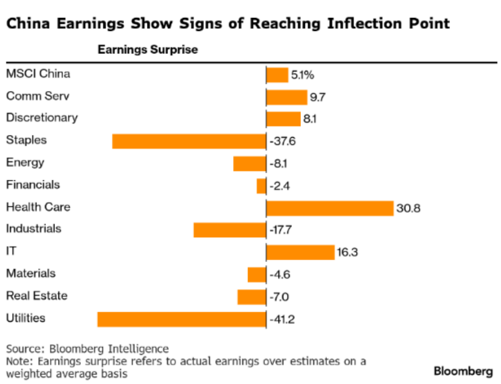
EM FX 1-week implied volatility remains notably low relative to the 2024 US Presidential Election
Percentage per annum



Source: Bloomberg, IMF Staff Analysis.

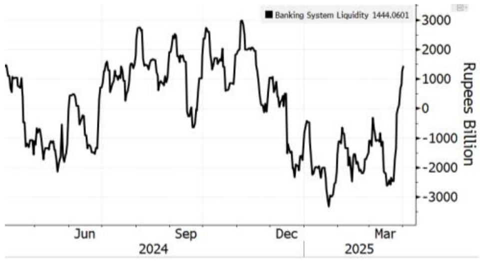
China

The Q4 earnings of MSCI China Index members exceeded estimates by 5.1% on a weighted average basis, up from 1.8% in the previous quarter, according to Bloomberg. Strategists attribute this improvement to stimulus packages aimed at boosting consumption since last September. Major consumer tech firms like JD.com, Alibaba, and Tencent benefited the most, reporting consensus-beating results. Electric vehicle manufacturers such as BYD, which received substantial government subsidies, also delivered above-estimate earnings. However, the market remains concerned about the potential impact of reciprocal tariffs, which could reduce 2025 earnings growth for MSCI China members by about 4–5%, assuming a 30% tariff rate. Still, analysts remain optimistic about MSCI China's resilience to further US tariff hikes compared to the broader emerging market segment. Today, the yuan remained steady against the dollar, supported by reported dollar sales from state-owned banks, while the stock market saw a slight decline.



India

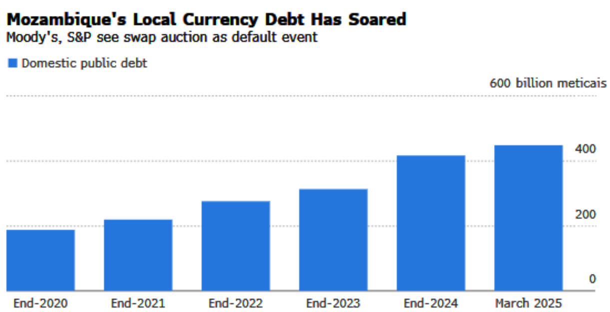
Indian sovereign yields dropped to three-year lows (10y: -7.9 bps to 6.51%; 30y: -6.7 bps to 6.85%) after the Reserve Bank of India (RBI) announced INR 800 bn ($9.4 bn) of bond purchases in April. The RBI will conduct open-market auctions in four equal tranches of INR 200 bn each. Bloomberg estimates the RBI has injected over $70 bn into the banking system since the end of January to address the deficit caused by dollar sales to stabilize the rupee and advance-tax payments by corporates. These measures helped turn liquidity into a surplus of INR 1,444 bn ($16.8 bn), which is expected to last until September. Analysts believe abundant liquidity is crucial for transmitting lower borrowing costs. The market anticipates a 25bp rate cut next week (a 97% implied probability), which could further lower bond yields. Analysts expect lower yields to boost corporate bond issuance as companies plan their borrowing for the new fiscal year. Today, the rupee depreciated against the dollar with volatility spiking to a 2023 high ahead of the tariff rollout.



Source: Bloomberg Economics

Mozambique

Mozambique's eurobond price continue to decline in the aftermath of Moody's downgrade. Mozambique's dollar bond price has been declining since Moody's last Friday downgraded the country's domestic-currency long-term issuer rating from Caa2 to Caa3, pointing to severe liquidity challenges faced by the government. Moody's attributed the liquidity challenges to debt refinancing difficulties and fiscal pressures, which worsened on the back of social and political unrest that followed the general elections in October 2024. Moody's also considered the country's recent debt swap auction as distressed and thus equivalent to a default. Absa analysts note that the government has time to develop a repayment plan as external debt repayments is expected to remain manageable until the eurobond amortizations start in 2028. Mozambique's eurobond has declined from around 83 cents on the dollar mid-last week to roughly 81.50 yesterday.



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (Senior Financial Sector Expert), Benjamin Mosk (Senior Financial Sector Expert), Sonal Patel (Senior Financial Sector Expert-London Representative), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are John Caparusso (Senior Financial Sector Expert), Mustafa Oguz Caylan (Research Officer), Sally Chen (IMF Resident Representative in Hong Kong), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Senior Research Officer), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Silvia Ramirez (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), Hong Xiao (Economist), Lawrence Tang (Senior Economist), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Jing Zhao (Economic Analyst). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Tyler (Administrative Coordinator) are responsible for the word processing and production of this monitor.

Global Financial Indicators

4/2/25 7:56 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5,633	0.4	-2.5	-5.4	8.2	-4
Europe		5,273	-0.9	-2.6	-3.5	4.6	8
Japan		35,726	0.3	-6.1	-5.5	-9.4	-10
China		3,884	-0.1	-0.9	-0.1	8.9	-1
Asia Ex Japan		74	0.5	-2.0	0.9	8.8	3
Emerging Markets		44	0.3	-1.8	1.5	6.2	5
Interest Rates					basis points		
US 10y Yield		4.1	-2	-21	-6	-20	-42
Germany 10y Yield		2.7	-2	-13	26	26	30
Japan 10y Yield		1.5	-3	-11	10	73	37
UK 10y Yield		4.6	-1	-11	14	54	6
Credit Spreads					basis points		
US Investment Grade		132	0	7	10	12	12
US High Yield		388	-2	38	55	42	60
Exchange Rates					%		
USD/Majors		104.1	-0.2	-0.4	-3.3	-0.7	-4
EUR/USD		1.08	0.1	0.5	3.0	0.3	4
USD/JPY		149.2	-0.2	-0.9	-0.2	-1.5	-5
EM/USD		44.7	0.1	-0.4	1.6	-4.1	4
Commodities					%		
Brent Crude Oil ($/barrel)		74.2	-0.4	1.6	2.7	-7.3	1
Industrials Metals (index)		150.2	-0.1	-3.7	3.5	5.9	7
Agriculture (index)		58.3	-0.6	1.8	0.6	-1.4	2
Implied Volatility					%		
VIX Index (%, change in pp)		23.0	1.2	4.7	3.4	8.4	5.7
Global FX Volatility		8.5	0.0	0.4	0.2	1.8	-0.7
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		82	2	0	-3	-25	-4
Italy		112	2	2	-1	-32	-4
France		72	1	3	-2	20	-11
Spain		64	1	1	0	-22	-5

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

Emerging Market Financial Indicators

Last updated: 4/2/2025 7:58 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		7.27	0.0	0.0	0.2	-0.5	0.4		1.9	0	-2	8	-49	19
Indonesia		16713	-0.1	-0.7	-1.4	-4.9	-3.5		7.0	0	-15	7	28	-6
India		86	0.0	0.2	2.2	-2.5	0.1		6.8	-6	-10	-16	-42	-54
Philippines		57	0.0	0.8	1.2	-1.5	1.3		5.1	6	-6	0	-31	26
Thailand		34	0.0	-0.6	-0.5	7.2	0.5		2.1	-2	-10	-19	-50	-26
Malaysia		4.45	-0.4	-0.5	0.3	6.7	0.4		3.8	-1	1	-2	-10	-5
Argentina		1073	0.0	-0.2	-0.8	-20.0	-3.9		35.9	-10	13	688	-1680	674
Brazil		5.68	0.4	0.3	3.6	-11.0	8.6		15.0	-12	-16	-31	443	-93
Chile		945	0.2	-2.0	0.6	3.3	5.5		5.6	-2	-3	-16	-12	-7
Colombia		4146	0.9	-0.9	-0.9	-6.8	6.3		12.0	-16	12	60	181	20
Mexico		20.35	0.0	-1.2	1.6	-18.7	2.3		9.3	-9	-20	-25	-22	-105
Peru		3.7	0.0	-1.1	0.4	1.4	2.2		6.7	1	20	31	-81	7
Uruguay		42	-0.1	-0.1	0.7	-10.6	3.6		9.5	4	-1	-19	49	-15
Hungary		371	0.4	0.3	2.7	-1.2	7.1		6.9	-4	4	47	24	46
Poland		3.87	0.3	0.7	2.6	3.0	6.8		5.3	-4	-12	-13	7	-24
Romania		4.6	0.1	0.4	3.0	0.2	4.3		7.2	1	-6	2	87	-5
Russia		84.2	0.5	-0.1	6.5	9.8	34.8							
South Africa		18.6	-0.8	-1.9	-0.1	0.8	1.2		10.8	-2	-9	10	-132	31
Türkiye		37.92	0.1	0.2	-3.9	-15.5	-6.8		34.2	0	159	589	484	444
US (DXY; 5y UST)		104	-0.2	-0.4	-3.3	-0.7	-4.1		3.90	-3	-20	-12	-45	-49

	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	7 Days	30 Days	12 M	YTD
								basis points					
China		3,884	-0.1	-0.9	-0.1	8.9	-1.3		108	3	10	-39	12
Indonesia		6,511	0.0	2.0	-1.9	-10.7	-8.0		127	7	20	39	36
India		76,617	0.8	-1.8	4.8	3.7	-1.9		116	9	16	10	30
Philippines		6,248	1.1	1.4	3.5	-9.0	-4.3		102	7	2	28	23
Thailand		1,173	0.4	-1.5	-1.3	-14.8	-16.2						
Malaysia		1,527	0.9	1.5	-2.9	-0.7	-7.1		91	9	12	8	21
Argentina		2,356,531	0.8	-5.3	6.8	94.3	-7.0		826	65	39	-612	189
Brazil		131,147	0.7	-0.7	6.8	2.8	9.0		236	9	-2	27	-11
Chile		7,686	0.5	1.2	4.8	15.8	14.5		128	6	0	8	15
Colombia		1,626	1.4	1.7	1.1	18.4	17.8		347	14	14	56	21
Mexico		53,338	1.6	0.3	1.9	-7.4	7.7		315	10	0	6	3
Peru		30,325	0.8	-1.2	6.2	7.8	4.7		149	7	1	10	8
Hungary		89,644	-0.3	-2.8	2.9	36.2	13.0		173	16	22	28	18
Poland		97,166	-0.4	-1.4	5.6	17.2	22.1		119	9	3	26	7
Romania		17,594	0.1	0.9	0.4	3.4	5.2		264	19	12	87	29
South Africa		89,185	-0.9	-0.8	3.8	19.8	6.1		338	29	23	-10	45
Türkiye		9,572	-0.9	2.9	-0.9	5.9	-2.6		320	19	37	28	61
EM total		44	0.2	-1.8	1.5	6.2	4.8		394	20	20	106	30

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

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