Global Markets Monitor

Monetary and Capital Markets Department
Global Markets Analysis Division

Wednesday, April 24, 2019

- **Earnings surprises spur US equities to record highs (link)**
- **BBB-rated US companies seek to reduce debt to strengthen balance sheets (link)**
- **Core euro area yields lower as German business sentiment weaker-than-expected (link)**
- **Australian equities and bonds rally, AUD weakens on decelerating inflation (link)**
- **US and Chinese officials to resume trade talks starting on April 30th (link)**
- **Argentine CDS spreads and sovereign bond yields continue to rise (link)**

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Global risk assets mixed as investors react to a slew of earnings reports

Yesterday's US trading session saw the S&P 500 reach a new record high in reaction to a generally strong batch of earnings reports. A wave of better-than-expected quarterly earnings and economic data helped propel the S&P 500 to a new all-time record, and solid Q1 results from tech stocks also spurred the Nasdaq to new highs. However, the improving sentiment failed to spillover to other regions as data and earnings releases overnight were less compeling for risk appetite. Stocks in Asia saw mixed price action, while main European indexes are flat to moderately lower following softer-than-expected numbers on German business sentiment. The somewhat defensive shift overnight has pushed benchmark sovereign yields lower with the 10-year Bund yield back down to 0% and 10-year US Treasury yield at 2.54%. Elsewhere, oil prices are taking a slight breather this morning, but stand close to six month highs as markets remain unconvinced that OPEC can make up for the expected drop in Iranian oil supply following the end of US waivers on imports from the country. The rise in oil prices underpinned an initial strengthening in commodity currencies against the US dollar that has now partially faded, and most G10 and other EM currencies have depreciated against the dollar so far this week.

Key Global Financial Indicators

Last updated: 4/24/19 8:00 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		2934	0.9	1	5	11	17
Eurostoxx 50		3507	0.1	2	6	0	17
Nikkei 225		22200	-0.3	0	3	0	11
MSCI EM		44	-0.2	1	5	-5	14
Yields and Spreads					bps		
US 10y Yield		2.54	-2.3	-6	10	-46	-15
Germany 10y Yield		0.00	-3.7	-8	2	-63	-24
EMBIG Sovereign Spread		341	2	5	-13	42	-73
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		62.7	-0.1	-1	0	-9	1
Dollar index, (+) = $ appreciation		97.7	0.0	1	1	8	2
Brent Crude Oil ($/barrel)		74.5	-0.1	4	11	1	38
VIX Index (%, change in pp)		12.4	0.1	0	-4	-6	-13

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

United States

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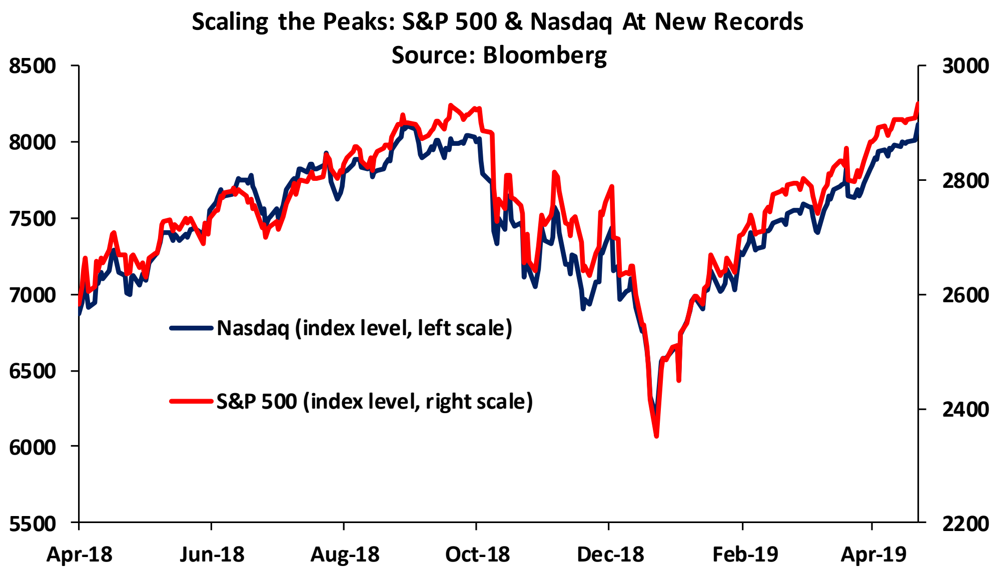
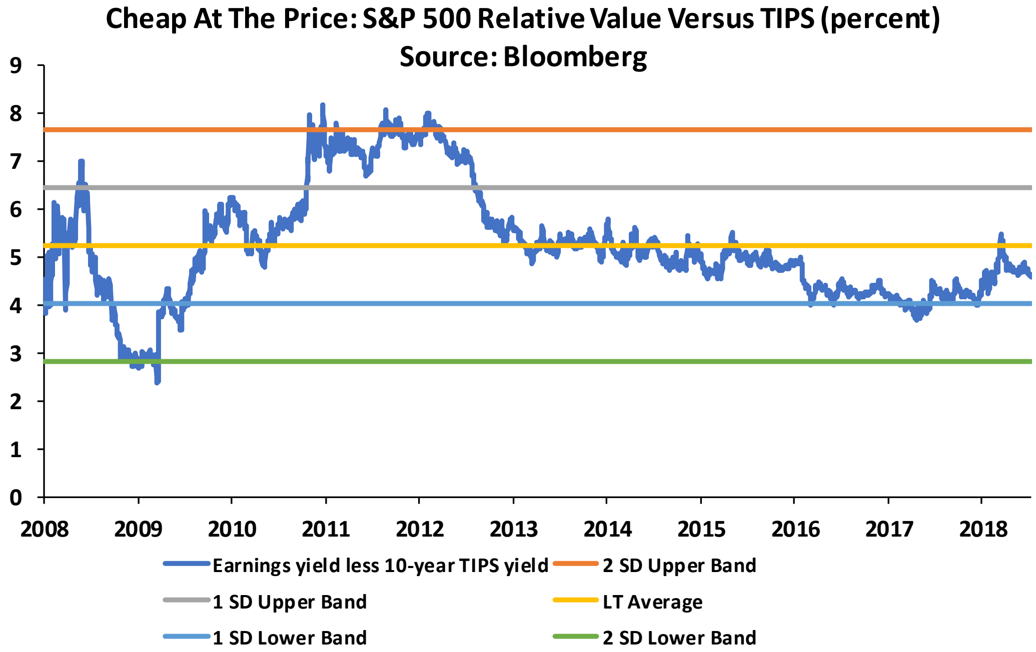
US equity markets enjoyed a historic session on Tuesday as both the S&P 500 and Nasdaq set new records. After many days of falling tantalizingly short, the indexes finally succeeded in breaking through as strong results from technology companies were bolstered by better than expected results from consumer-oriented companies such as P&G, Verizon and Coca Cola. So far, 80% of companies reporting results have beaten analysts' forecasts, although it is still early in the earnings season. The market has staged one of the most rapid recoveries in history, with the previous S&P 500 record set on September 20 followed by a near-20% decline by Christmas Eve and then a new surge upwards beginning on December 26. The selloff occurred over 14 weeks and the recovery took 17 weeks. Investors who held on to their positions during the selloff have now been made whole. The dollar also benefited from the positive sentiment and hit a new six-month high as both the euro and the pound remained under pressure. Treasuries reversed their Monday decline, pushing yields slightly lower. **This morning, S&P 500 futures are trading flat and the 10-year US Treasury yield has declined 3 bps to 2.54%.**

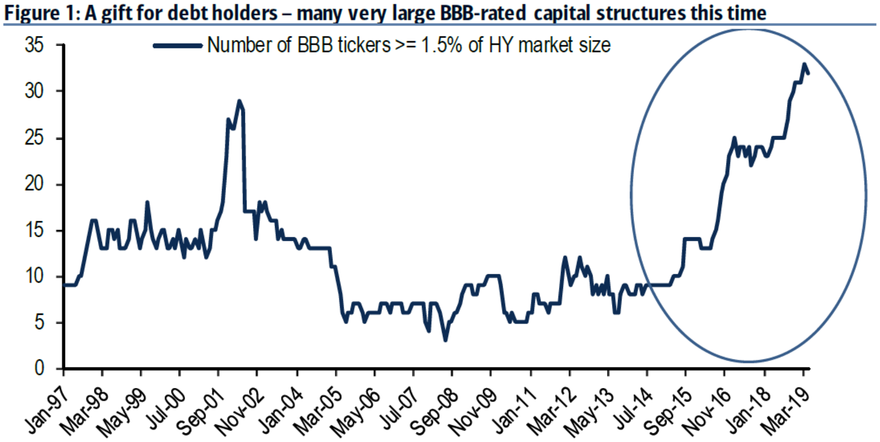


Lower interest rates have been a key driver of the market recovery. Although rates declined in step with falling equity prices, they did not go back up again as the stock market began to rally. The Fed's dovish tilt at the January and March FOMC meetings kept a lid on interest rates and a floor under equity valuations. Stock valuation measures are dependent on the overall level of rates, with lower rates yielding higher valuations in most circumstances. As a result, current valuations remain in line with historical norms despite the rally because interest rates have remained low. The S&P 500 earnings yield less the 10-year TIPS yield is about half a standard deviation below its historical average of the past decade of around 5.25%, the lowest level for this measure since late 2017. Other widely used measures such as enterprise value support this conclusion of relatively moderate valuations. Twelve-month trailing EBITDA relative to enterprise value is well below record levels, as is enterprise value relative to forward earnings estimates. The biggest risk to the equity market may come from an unexpected snap-back in interest rates that pushes equity valuations lower. Meanwhile, Conference Board survey data show that just 37% of the population expects stock prices to increase over the next year, and 26%



BBB-rated US companies could be forced to rebuild their balance sheets and become more conservative with their cash management, improving the credit profile of this sector of the investment grade (IG) bond market. There are many BBB-rated issuers with large amounts of bonds outstanding, and a downgrade to high yield (HY) status (below BBB-) would probably make their business models unsustainable due to the much higher funding costs. There are 34 BBB-rated companies that each have debt outstanding equivalent to at least 1.5% of the HY market. Consequently, companies are expected to cut back on share buybacks and keep more cash on hand in order to reduce their debt levels. Investor surveys show that both equity and fixed income investors favor firms that are strengthening balance sheets over further share buybacks or dividend increases. Analysts point out that large BBB issuers have already begun to reduce their debt outstanding, with companies such as Verizon (BBB+/Baa1) shrinking their debt by $6 bn over the course of 2018. S&P recently upgraded retailer Kohl to BBB+ from BBB and gave Macy's a stable BBB- outlook due to their progress in balance sheet deleveraging.

Figure 1: A gift for debt holders – many very large BBB-rated capital structures this time



Source: ICE Data Indices, LLC

Europe

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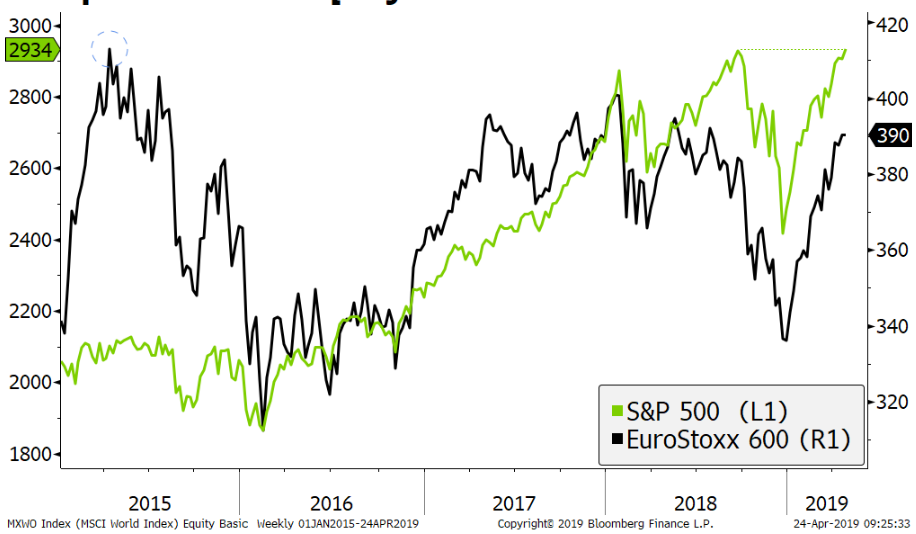
The EuroStoxx 600 is down 0.4% on mixed earnings and weaker economic data, leading to the underperformance of the energy, materials, and automobile sectors. Credit Suisse (+2.7%) is outperforming in the banking sector after a solid earnings report and favorable guidance. **Yields are a few basis points lower across the region after all three components of the German IFO survey for April came in below expectations.**

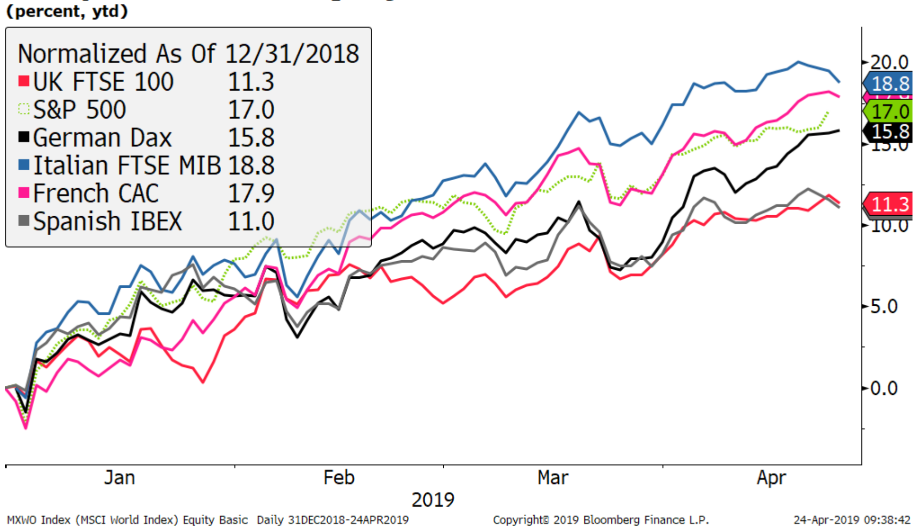
In contrast to its US counterpart, the EuroStoxx 600 is still 5.5% from the record high established in mid-2015 (first chart). That said, the year-to-date performance of European equities (+15.7) has been close to that of the US (+17.0%). Moreover, there has been considerable divergence between indices (second chart). While Italy (+18.8%) and France (+17.9%) are beating the S&P500, Spain (+11%) and Germany (+15.8%) are lagging, along with the UK (+11.3%).

European vs. US Equity Indices



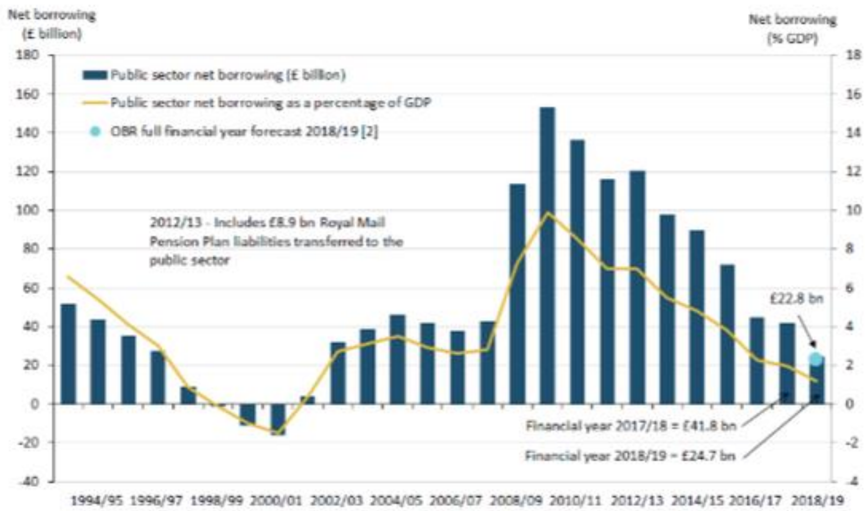
European vs. US Equity Indices

(percent, ytd)



United Kingdom

Public borrowing in the UK fell to its lowest level in 17 years. Borrowing for the last fiscal year declined to £24.7 bn from £41.8 bn in the previous year. The deficit now stands at 1.2% of GDP, compared to a high of 9.9% after the financial crisis in 2010. The improvement was largely driven by higher revenue growth as income-tax receipts rose 7% and VAT increased 5.6%.



Source: Office for National Statistics – Public Sector Finances

Other Mature Markets back to top

Japan

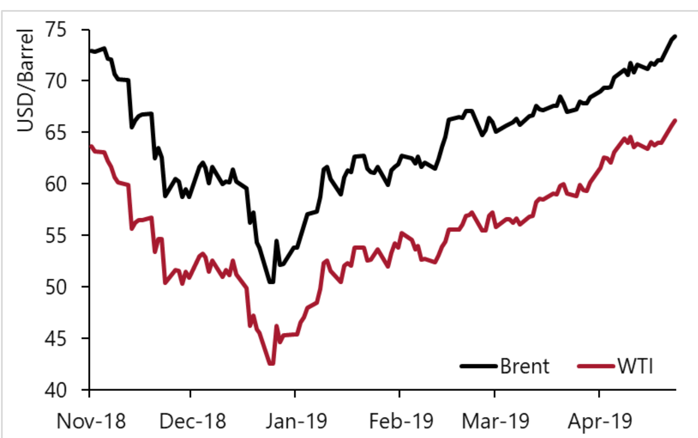
Japanese equities (Nikkei -0.3%; Topix -0.7%) fell, erasing earlier gains. Utility stocks (-3.1%) fell on concerns that the government may not allow tariff increases. **JGB 10-year yields fell 1 bp to a one-week low of -0.05% while the yen was steady.**

Australia

Equities rallied (+1.0%) and the Australian dollar (-0.8%) depreciated after a weak inflation print. Headline consumer price inflation missed Bloomberg estimates falling to 1.3% yoy in 2019Q1 from 1.8% yoy in 2018Q4. Fuel prices were the main drag to inflation. **The soft inflation figure prompted analysts to bring forward their interest rate cut forecasts to next month's RBA policy meeting.** The RBA has kept its cash rate steady at 1.5% since August 2016. Fixed income markets have also priced in a rate cut in the next six months and a high chance of two reductions over the same period. **The Australian 10-year bond yield fell 11 bps to 1.79%.**

Crude Oil

Oil prices continued to rise reaching a six-month high amid the US administration's decision to end sanction waivers on Iranian oil imports. Despite the White House insisting that it had worked with Saudi Arabia to ensure sufficient supply to offset the losses of Iranian exports, Brent crude advanced 0.4% yesterday to $74.51 a barrel, adding to gains on Monday to reach the highest level since last October. Commodity market analysts commented that the oil market is likely to be very sensitive to any further disruptions in Libya, Venezuela or Nigeria amid seasonally higher oil demand in the summer.



Source: Bloomberg

Emerging Markets

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Emerging markets were little changed this morning. **Asian** equities were little changed on net with varying performance across markets. Chinese equities (Shanghai +0.1%; Shenzhen +1.1%) gained, led by small-caps and tech, while Vietnam (+0.9%) and India (+0.6%) also outperformed. Meanwhile, Korea (-0.9%) and Hong Kong (-0.5%) underperformed. Regional currencies traded mostly weaker against the dollar, with the Korean won (-0.8%) declining the most to a two-year low. **EMEA** bourses also saw minimal moves with South Africa's 0.3% decline among the biggest. Local currencies were slightly weaker against the dollar, with the Turkish lira (-0.7%) underperforming. **Latin American** equity markets were mixed yesterday. Brazil (+1.4%) was the best performer on signs of progress on the pension reform proposal, while Mexico and Chile saw losses. Local currencies were mostly weaker, although the Brazilian real extended gains. 10-year government bond yields dropped 13 bps in Brazil and were generally higher in other Latin American countries.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
4/24/19 8:08 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks					%		%
MSCI EM Equities		44.37	-0.2	1	5	-5	14
MSCI Frontier Equities		28.66	0.0	-1	1	-15	10
EMBIG Sovereign Spread (in bps)		341	2	5	-13	42	-73
EM FX vs. USD		62.69	-0.1	-1	0	-9	1
Major EM FX vs. USD			**%, (+) = EM currency appreciation**				
China Renminbi		6.72	0.1	0	0	-6	2
Indonesian Rupiah		14104	-0.2	0	1	-2	2
Indian Rupee		69.87	-0.3	0	-1	-5	0
Argentine Peso		42.41	-0.3	0	-1	-52	-11
Brazil Real		3.93	-0.2	0	-2	-12	-1
Mexican Peso		18.96	-0.3	-1	0	-1	4
Russian Ruble		64.11	-0.7	0	0	-4	9
South African Rand		14.35	-0.7	-3	0	-14	0
Turkish Lira		5.88	-0.8	-2	-6	-30	-10
EM FX volatility		8.19	0.0	0.0	-0.2	-0.2	-1.6

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

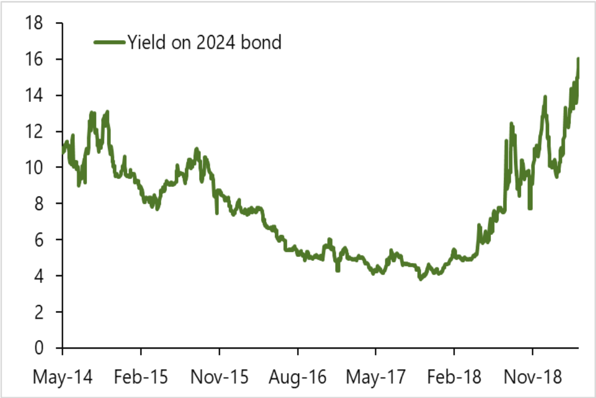
China

China 10-year bond yields held steady at 3.42%, the highest since November, despite the central bank's targeted medium-term loan injection. The People's Bank of China (PBoC) offered CNY267.4 bn of one-year funds at 3.15%, 15bps lower than the 3.3% it charges on regular medium-term lending facility financing. This injection signals a calibrated approach towards liquidity management. Even with a less dovish tone on monetary easing as seen from its Q1 quarterly monetary policy committee meeting, the PBoC still looks to ensure steady monetary expansion, according to analysts. **The onshore and offshore RMB were steady.**

US and Chinese officials will resume trade talks starting April 30 in Beijing. The two sides will cover issues including intellectual property, forced technology transfer, non-tariff barriers, agriculture, services trade and enforcement, according to a White House statement. According to Bloomberg, both countries are looking to have a draft agreement by the end of May.

Argentina

Credit default swap spreads on Argentine sovereign debt hit the highest level since President Macri took office more than three years ago. The spread on the 5-year credit default swaps rose 29 bps to 991 bps, reaching a new record high since May 2015. In addition, the yields on the government's 2024 benchmark dollar sovereign bond rose to 15.99%, another new record high.



Source: Bloomberg

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Global Financial Indicators

Last updated: 4/24/19 8:01 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		2934	0.9	1	5	11	17
Europe		3507	0.1	2	6	0	17
Japan		22200	-0.3	0	3	0	11
China		3202	0.1	-2	3	2	28
Asia Ex Japan		73	0.3	0	5	-3	15
Emerging Markets		44	-0.2	1	5	-5	14
Interest Rates					basis points		
US 10y Yield		2.54	-2.3	-6	10	-46	-15
Germany 10y Yield		0.00	-3.7	-8	2	-63	-24
Japan 10y Yield		-0.04	-0.9	-3	3	-10	-4
UK 10y Yield		1.19	-3.8	-5	18	-35	-9
Credit Spreads					basis points		
US Investment Grade		111	-0.1	2	-11	14	-36
US High Yield		393	-0.1	7	-34	63	-128
Europe IG		58	0.0	-1	-12	2	-30
Europe HY		247	0.9	-1	-36	-28	-105
EMBIG Sovereign Spread		341	2.0	5	-13	42	-73
Exchange Rates					%		
USD/Majors		97.68	0.0	1	1	8	2
EUR/USD		1.12	-0.2	-1	-1	-8	-2
USD/JPY		111.8	0.0	0	-2	-3	-2
EM/USD		62.7	-0.1	-1	0	-9	1
Commodities					%		
Brent Crude Oil ($/barrel)		74	-0.1	4	11	1	38
Industrials Metals (index)		119	0.5	-1	-1	-12	9
Agriculture (index)		39	0.1	-1	-4	-18	-5
Implied Volatility					%		
VIX Index (%, change in pp)		12.4	0.1	0.2	-4.1	-5.6	-13.0
10y Treasury Volatility Index		3.9	0.4	0.4	-0.4	-0.1	-0.7
Global FX Volatility		6.2	0.0	0.1	-1.1	-1.4	-2.7
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		329	1.4	5	-49	-7	-87
Italy		265	1.9	12	19	152	15
Portugal		117	0.8	4	-11	12	-31
Spain		108	0.6	5	-1	41	-9

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: 4/24/2019 8:08 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		6.72	0.1	-0.4	0	-6	2		3.4	2.0	4	23	-16	18
Indonesia		14104	-0.2	-0.1	1	-2	2		7.8	1.7	4	5	76	-40
India		70	-0.3	-0.4	-1	-5	0		7.6	0.8	8	17	-27	15
Philippines		52	-0.4	-0.9	1	0	1		5.3	0.0	-1	-15	18	-100
Thailand		32	-0.2	-0.7	-1	-2	2		2.6	2.0	5	6	22	-1
Malaysia		4.13	0.0	0.1	-1	-5	0		3.9	-3.8	5	3	-25	-20
Argentina		42	-0.3	-0.1	-1	-52	-11		23.2	94.1	70	-64	589	18
Brazil		3.93	-0.2	0.3	-2	-12	-1		8.1	-6.5	-12	-10	-22	-7
Chile		668	-0.6	-0.8	2	-10	4		4.1	-0.2	-3	-11	-59	-39
Colombia		3178	-1.2	-0.5	-2	-11	2		6.2	0.9	-3	5	5	-34
Mexico		18.96	-0.3	-0.7	0	-1	4		8.2	2.3	4	14	64	-53
Peru		3.3	-0.2	-0.5	0	-2	2		5.4	-0.5	-4	0	15	-38
Uruguay		34	-0.1	-0.5	-3	-18	-6		10.6	12.9	14	20		-7
Hungary		286	-0.3	-1.4	-2	-11	-2		2.1	2.1	-4	18	47	-16
Poland		3.83	-0.3	-1.2	-1	-10	-2		2.3	0.7	2	6	-17	4
Romania		4.2	-0.1	-0.6	-1	-10	-4		4.3	-1.0	-2	24	27	3
Russia		64.1	-0.7	-0.4	0	-4	9		8.0	1.3	3	5	91	-41
South Africa		14.4	-0.7	-2.5	0	-14	0		9.3	8.2	1	-21	59	-26
Turkey		5.88	-0.8	-2.3	-6	-30	-10		19.4	0.0	-41	207	659	252
US (DXY; 5y UST)		97.7	0.0	0.6	1	8	2		2.33	-2.9	-7	9	-50	-18

	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	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		3202	0.1	-2	3	2	28		174	0	0	-2	-5	-20
Indonesia		6448	-0.2	0	-1	4	4		180	2	2	-16	7	-56
India		39055	1.3	0	2	13	8		157	3	4	-4	19	-39
Philippines		7847	0.4	1	-2	3	5		86	2	2	-13	-11	-35
Malaysia		1638	0.6	1	-2	-12	-3		127	1	1	-2	10	-35
Argentina		30927	0.5	-1	-6	1	2		871	4	36	103	469	56
Brazil		95923	1.4	3	2	12	9		243	1	0	-9	13	-30
Chile		5217	-0.3	0	0	-8	2		126	0	0	-9	1	-40
Colombia		1595	0.2	-1	0	2	20		173	0	-2	-15	2	-55
Mexico		45148	-0.5	1	7	-6	8		293	3	1	-9	44	-61
Peru		20825	-0.2	-1	-1	-3	8		125	3	4	-16	-18	-43
Hungary		43431	0.4	1	4	15	11		108	5	3	-19	5	-40
Poland		60893	-0.1	0	1	2	6		46	3	5	-18	1	-39
Romania		8363	0.1	1	4	-7	13		199	0	0	-1	68	-22
Russia		2576	-0.4	0	3	14	9		201	1	0	-21	0	-51
South Africa		59182	-0.6	2	5	3	12		300	5	15	-14	60	-65
Turkey		96337	0.4	0	-4	-13	6		498	-1	13	18	190	69
Ukraine		562	0.8	4	1	18	0		615	11	45	-21	162	-172
EM total		44	-0.2	1	5	-5	14		341	2	5	-13	42	-73

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