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- Italian sovereign bond spreads widen on supply concerns ([link](#))
- Euro area bank earnings better than expected ([link](#))
- China's Huarong repays offshore bond with support from state-owned bank ([link](#))
- Sovereign wealth funds have played a key role in the pandemic response in Africa ([link](#))
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Risk assets tread water ahead of FOMC

Global equity markets are mixed this morning as investors soak in a largely positive batch of earnings that overall has supported the pro-cyclical recovery rally seen in markets, while weighing the releases against a renewed move higher in sovereign bond yields. US equity markets were little changed yesterday as investors waded through a heavy day of Q1 earnings, while US Treasury yields rose following signs of further strength in domestic data. Ten-year Treasury yields climbed back above 1.60% and have been driven mostly by higher breakeven inflation rates. The higher yields have underpinned the US dollar and oil prices are building on gains so far this week as OPEC restated its view of strong oil demand this year despite the uneven global recovery from COVID-19. Market sentiment has been somewhat constructive overnight with Asian stocks mixed but Indian equities rebounding on growing efforts to curb the virus spread. European bourses are edging higher this morning where the focus also remains on the corporate earnings season that has showed positive surprises gaining momentum. All eyes have now turned to the FOMC and President Biden's congressional appearance later today where investors hope to get further information on the Fed's view on the outlook for the economic recovery and monetary policy, as well as updates from the US administration on key fiscal policy proposals.

Key Global Financial Indicators

Last updated: 4/28/21 8:02 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4187	0.0	1	5	46	11
Eurostoxx 50		4016	0.1	1	4	37	13
Nikkei 225		29054	0.2	2	-1	47	6
MSCI EM		55	-0.1	2	3	50	6
Yields and Spreads			bps				
US 10y Yield		1.63	1.3	8	-4	102	72
Germany 10y Yield		-0.22	2.6	4	12	25	35
EMBIG Sovereign Spread		339	-2	-1	-14	-297	-11
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.1	0.2	0	2	8	-1
Dollar index, (+) = \$ appreciation		91.0	0.1	0	-2	-9	1
Brent Crude Oil (\$/barrel)		67.0	0.8	2	4	227	29
VIX Index (% change in pp)		17.5	-0.1	0	-1	-16	-5

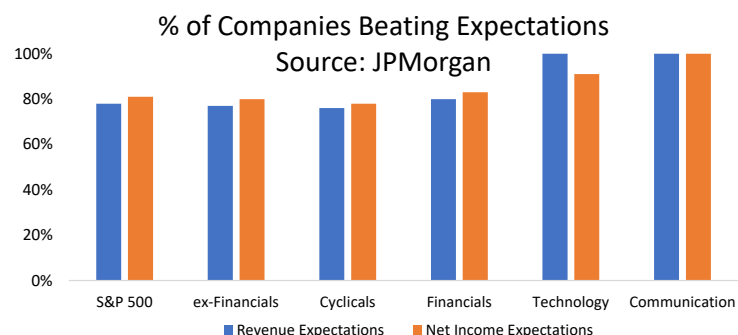
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

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On Tuesday, the S&P 500 was little changed near a record high. Ten-year US Treasury yields rose by 6 bps, mostly due to increasing breakeven inflation backed by a strong US Consumer Confidence report.

Based on 25% of S&P 500 companies that have reported so far, 81% are beating Q1 earnings estimates and 78% are beating revenue estimates. However, some earnings optimism was already incorporated in elevated equity prices and investors may demand much larger positive surprises to generate a meaningful price action. Based on Bloomberg estimates, on average shares have gained less than 0.1% after the reports.



The commodity rally in grains and base metals has pushed their prices to multi-year highs (left chart below). The open interest is also at record levels (middle and right charts). The rally in metals is supported by the global recovery from the pandemic, with markets outside China offsetting the current weakness in Chinese demand. The prices of wheat, corn and soybeans are underpinned by weather woes that raise concerns about global shortages amid tight supply.

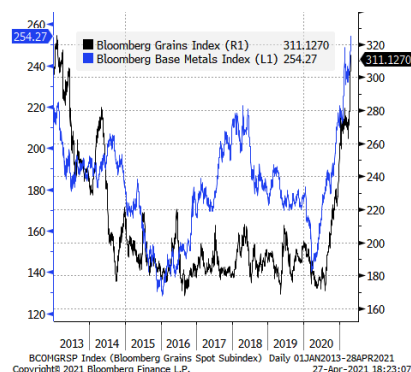
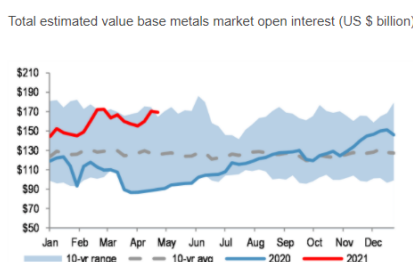
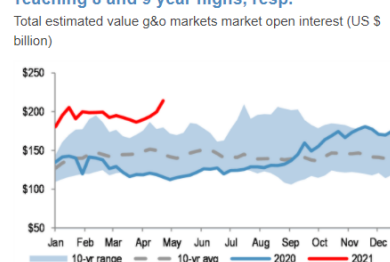


Figure 6: Base metals open interest declined slightly but still remains above the 10-year range



Source: Exchanges, CFTC, J.P. Morgan Commodities Research

Figure 8: Grain & oilseed open interest reached a new high of \$214 billion with Soybeans and Corn reaching 8 and 9 year highs, resp.



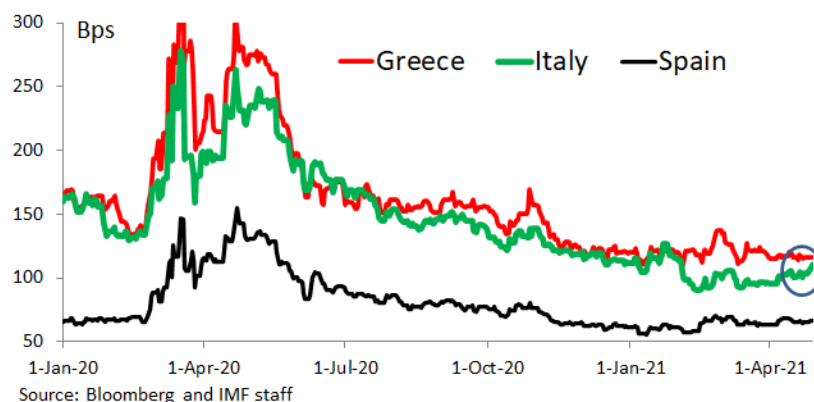
Europe

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10-yr bund yields (+3 bps to -0.22%) rose as contacts argue that euro area yields could trade higher if the ECB decides to taper its PEPP QE purchases in June. The euro (-0.2%) was little changed.

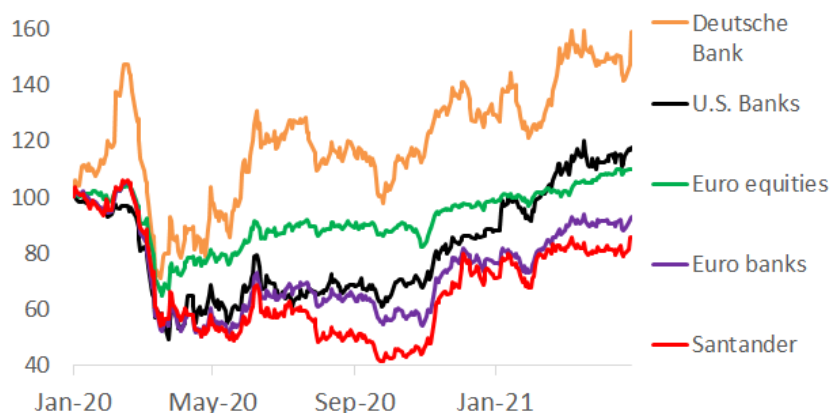
Italian 10-yr spreads (+3 bps 110 bps) are higher as contacts argue that spreads may widen further when the ECB starts to taper its QE purchases given Italy's net issuance and debt levels. Contacts have welcomed Italy's ambitious Recovery and Resilience Plan of €235 bn but argue that spreads could widen if the ECB tapers its QE purchases later in 2021. Analysts point out that net issuance of Italian sovereign bonds will be €66 bn higher than net ECB purchases this year, compared to €14 bn lower last year.

Euro area: 10-year spreads over German bunds (bps)



Euro area bank shares (+1.2%) gained after Deutsche Bank and Santander beat quarterly earnings estimates. Shares in Deutsche Bank (+10%) jumped after the bank reported better-than-expected profits before tax of €1.75 bn (€1.4 bn expected) with strong performance by the investment bank and private bank divisions. Credit losses have normalized quicker than expected leaving the bank's CET1 capital ratio at 13.7%. Santander also announced better-than expected net profits of €1.6 bn (€1.2 bn expected) this morning. Santander stocks (+0.6%) traded higher after closing with 5% gains yesterday.

European bank equities (Jan 2020: 100)



Other Mature Markets

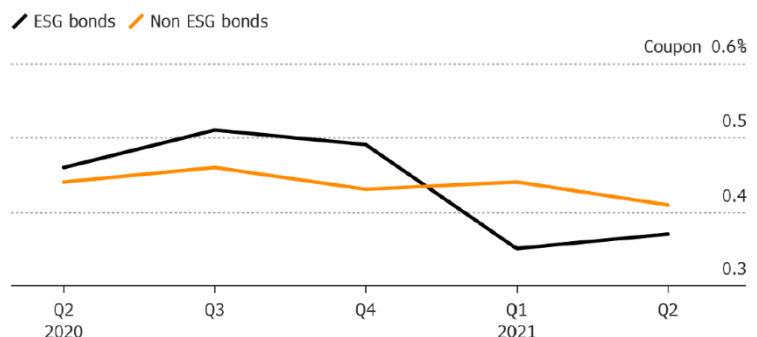
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Japan

Retail sales rose at a faster-than-expected pace in March. Retail sales increased 5.2% y/y, above an expected 4.7% growth, even as businesses continued to operate under reduced hours due to a state of emergency in major cities. Analysts noted that positive numbers pointed to increasing resilience in spending despite strict measures to contain the pandemic. **Japanese issuers of bonds for green or sustainable projects may find more attractive funding costs.** The average coupon on 10-year yen ESG bonds has fallen to 0.37%, with the decline much sharper than that for non-ESG bonds. **The Bank of Japan plans to maintain the size of its bond purchases across the curve in May.** Long-end JGB yields increased (10-year: +1.2 bps; 30-year: +1 bp). Japanese yen depreciated (-0.2%); equities gained (NIKKEI: +0.2%).

Lower Costs

Average coupons on Japanese yen corporate 10-year ESG bonds have fallen



Source: Bloomberg

NOTE: Data excludes subordinated, government agency debt

Bloomberg

Emerging Markets

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Latin American equity markets were volatile yesterday. Argentina outperformed as the equity index rose 2.2%, while Chile (-2.4%) and Brazil (-1.0%) saw losses. **Local currencies were mostly weaker.** The Colombian peso depreciated 1.7% against the dollar, followed by the Mexican peso (-0.9%). 10-year government bond yields rose 15 bps in Chile. **Asian equities were mixed, falling 0.4% on net, while currencies generally depreciated,** led by Sri Lankan rupee (-0.9%). Meanwhile, Indian rupee appreciated (+0.3%) on optimism around the plan to accelerate vaccination. **Long-end government bond yields increased** following the rise in U.S. treasury yields. However, 10-year Philippine government bond yield declined (-15.4 bps). **Stocks in EMEA delivered another mixed performance:** equities advanced in Poland (+1.1%), the Czech Republic (+0.6%), Saudi Arabia (+0.5%), and Kuwait (+0.5%), whereas losses were seen in UAE (-0.6%), Egypt (-0.6%), and Russia (-0.4%). Currencies were mixed as well, within a $\pm 0.3\%$ corridor. Yesterday, the Hungarian central bank left its policy stance unchanged but signaled it remains wary of inflation risks.

Key Emerging Market Financial Indicators

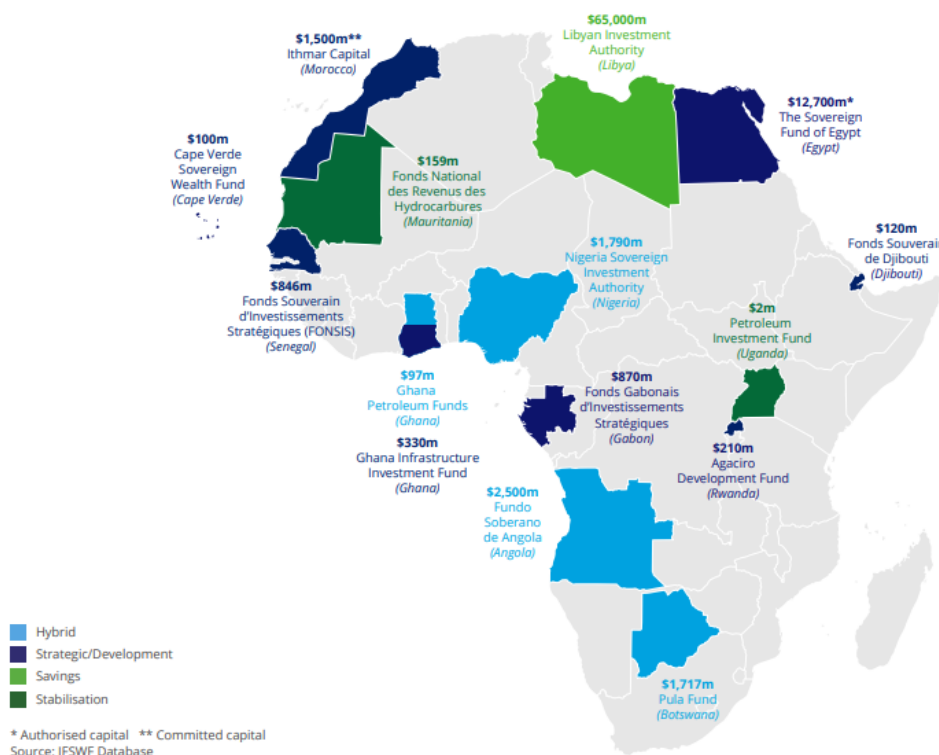
Last updated: 4/28/21 8:04 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		54.67	0.3	2	3	50	6
MSCI Frontier Equities		30.93	0.4	0	5	39	9
EMBIG Sovereign Spread (in bps)		339	-2	-1	-14	-297	-11
EM FX vs. USD		57.13	0.2	0	2	8	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.48	0.0	0	1	9	1
Indonesian Rupiah		14500	-0.1	0	0	7	-3
Indian Rupee		74.37	0.4	1	-2	2	-2
Argentine Peso		93.34	-0.1	0	-2	-29	-10
Brazil Real		5.45	0.1	2	6	1	-5
Mexican Peso		20.04	0.1	-1	3	21	-1
Russian Ruble		74.60	0.4	3	1	-1	0
South African Rand		14.35	0.2	-1	4	30	2
Turkish Lira		8.17	0.6	0	0	-14	-9
EM FX volatility		9.72	0.0	-0.2	-1.4	-2.1	-1.0

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

Sovereign Wealth Funds

Research by the International Forum of Sovereign Wealth Funds and Franklin Templeton highlights the advantages for sovereign wealth funds (SWFs) of investing domestically. The report notes that disruptions to the global economy due to the pandemic, resulted in a higher demand by African SWFs for domestic investments. SWFs from Angola, Botswana, Ghana and Nigeria played an important role in helping finance public spending in response to COVID-19, the report finds. Domestic industry groups that have benefited from SWFs' interest include health care, agribusiness, and digital technology. African SWFs are relatively small compared to peers from Asia and Europe. Assets under management across the 13 African funds amounted to \$23 bn in 2020.

Figure 2: African Sovereign Wealth Funds Assets under Management, 2020



China

China Huarong Asset Management repaid an offshore bond with help from a state-owned bank. Reportedly, Huarong repaid the offshore bond maturing Tuesday with funds provided by a state-owned bank—a sign that Chinese banks followed the government's call to support the embattled asset management company. Earlier, the China Banking and Insurance Regulatory Commission asked banks to extend loans to Huarong by at least six months to refinance its debt. Besides being an active offshore dollar bond issuer, Huarong also heavily borrows from Chinese banks. Onshore loans account for about half of its funding, with its total liabilities amounting to around \$240 bn (based on the latest financial statement). **Equities gained (CSI 300: +0.4%); RMB was little changed.**

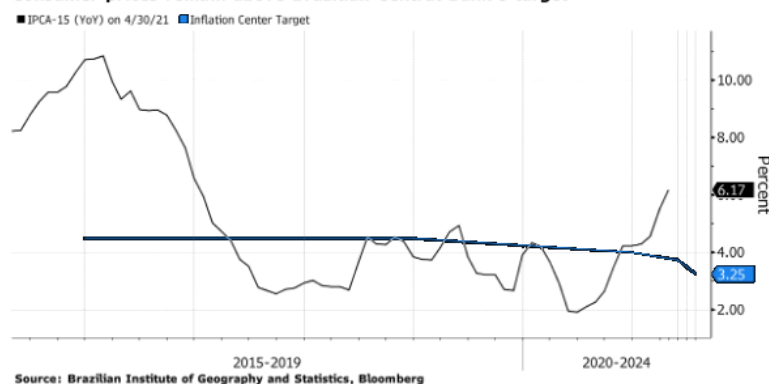
Brazil

Brazil's annual inflation printed at 6.17% y/y, above the ceiling (5.25%) of the central bank's inflation target for the second consecutive month. Annual inflation now stands at its highest level since December 2016. In monthly terms, CPI decelerated to 0.60% m/m in April (vs. 0.93% in March), as the increase in fuel prices moderated. Economists have revised up their year-end expectations for the policy rate and inflation on Monday. According to reports, analysts expected the central bank to deliver another 75-bps rate-hike at

the policy meeting next week, bringing the Selic rate to 3.5%. Brazilian risky assets saw losses on Tuesday, as domestic equities fell 1.0% and the real slightly weakened against the dollar.

Above Target

Consumer prices remain above Brazilian Central Bank's target

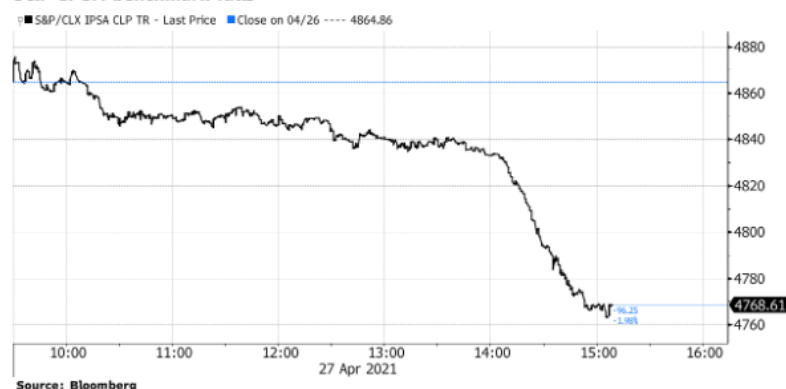


Chile

Chile's Constitutional Court rejected President Pinera's request to block the bill approved by Congress that allows workers to withdraw up to 10% from pension funds. According to a statement published on Tuesday, the court voted 7 to 3 against the request, even before discussing the basis of the appeal. Court members now have two days to publish reasons, with no details immediately available. JP Morgan estimated that the withdrawals could result in an outlay of \$20 bn from Chile's capital market, and Itau expected the number to be between \$14 bn and \$19 bn. Chile's equity market reacted negatively yesterday, as the domestic equity index extended losses after the announcement and closed at -2.4%.

Stock Losses Steepen After Court Announcement

S&P IPSA benchmark falls








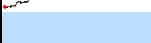
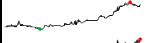

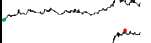






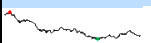






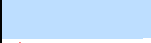



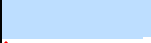


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Global Financial Indicators

Last updated: 4/28/21 8:03 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4188	0.0	0	5	46	11
Europe		4016	0.1	1	4	37	13
Japan		29054	0.2	2	-1	47	6
China		3457	0.4	0	1	22	0
Asia Ex Japan		95	0.1	2	2	49	6
Emerging Markets		55	-0.1	2	3	50	6
Interest Rates			basis points				
US 10y Yield		1.63	1.3	8	-4	102	72
Germany 10y Yield		-0.22	2.6	4	12	25	35
Japan 10y Yield		0.10	1.3	2	2	14	8
UK 10y Yield		0.82	4.7	8	6	53	62
Credit Spreads			basis points				
US Investment Grade		92	-0.7	-4	-3	-105	-3
US High Yield		330	-3.7	-11	-20	-443	-49
Europe IG		51	-0.1	0	-3	-31	3
Europe HY		251	-0.4	-1	-13	-244	8
EMBIG Sovereign Spread		339	-1.7	-1	-14	-297	-11
Exchange Rates			%				
USD/Majors		91.00	0.1	0	-2	-9	1
EUR/USD		1.21	-0.2	0	3	12	-1
USD/JPY		108.9	0.2	1	-1	2	5
EM/USD		57.1	0.2	0	2	8	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		67	0.8	2	4	227	29
Industrials Metals (index)		155	0.1	4	6	62	17
Agriculture (index)		58	-1.4	5	13	68	20
Implied Volatility			%				
VIX Index (%, change in pp)		17.5	-0.1	0.0	-1.4	-16.1	-5.3
US 10y Swaption Volatility		76.0	0.4	-3.0	-3.2	6.7	15.9
Global FX Volatility		7.1	0.0	-0.2	-0.8	-2.3	-0.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		118	1.7	2	-3	-148	-2
Italy		110	3.3	9	14	-109	-1
Portugal		67	0.3	1	15	-76	7
Spain		67	0.0	1	3	-65	5

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: 4/28/2021 8:06 AM	Exchange Rates						Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)				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	YTD	
	vs. USD		(+)= EM appreciation				% p.a.							
China		6.48	0.0	0.1	1	9	1		3.3	0.9	4	-4	88	0
Indonesia		14500	-0.1	0.2	0	7	-3		6.5	1.4	0	-19	-146	45
India		74	0.4	0.7	-2	2	-2		6.3	-0.2	-5	-5	6	38
Philippines		48	-0.2	-0.1	0	5	-1		4.1	0.7	3	29	-78	46
Thailand		31	0.1	-0.1	-1	3	-5		1.9	3.4	-1	-9	46	55
Malaysia		4.10	-0.2	0.4	1	6	-2		3.2	0.2	2	-2	40	68
Argentina		93	-0.1	-0.4	-2	-29	-10		46.8	6.0	31	100	-30	-932
Brazil		5.45	0.1	2.2	6	1	-5		7.9	8.0	-21	-26	100	230
Chile		702	0.5	-0.8	4	22	1		3.7	10.0	24	18	92	93
Colombia		3716	-1.7	-2.0	-1	9	-8		6.4	2.9	25	3	-3	135
Mexico		20.04	0.1	-0.7	3	21	-1		6.7	7.1	5	4	-16	111
Peru		3.8	0.0	-3.8	-2	-11	-6		5.3	0.8	47	72	63	174
Uruguay		44	0.0	0.4	1	-2	-4		7.4	0.8	1	7	-470	12
Hungary		300	0.1	0.5	3	10	-1		2.0	-0.1	-2	-5	18	43
Poland		3.80	-0.5	-0.4	4	11	-2		0.9	-1.9	-3	4	-13	24
Romania		4.1	-0.2	0.2	2	10	-3		2.6	0.0	-2	-2	-159	-13
Russia		74.6	0.4	2.7	1	-1	0		6.7	3.2	-7	-3	86	99
South Africa		14.3	0.2	-0.7	4	30	2		10.0	0.0	12	-34	-127	33
Turkey		8.17	0.6	0.2	0	-14	-9		17.8	-13.6	24	-61	716	469
US (DXY; 5y UST)		91	0.1	-0.2	-2	-9	1		0.89	0.5	9	2	51	53

	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	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		5119	0.6	0	1	32	-2		199	0	-2	-9	30	-9
Indonesia		5974	0.2	0	-3	31	0		158	0	-9	-25	-5	-29
India		49734	1.6	4	1	52	4		167	-6	-1	19	-164	16
Philippines		6469	1.8	0	-2	15	-9		83	0	-9	-17	13	-22
Malaysia		1609	0.1	1	0	17	-1		113	0	-2	-3	9	3
Argentina		48962	2.2	4	5	48	-4		1459	0	19	8	-570	91
Brazil		119388	-1.0	-1	4	47	0		253	0	0	-16	58	3
Chile		4749	-2.4	-4	-2	22	14		126	0	-6	-16	-14	-18
Colombia		1293	0.5	-1	-2	13	-10		207	0	-4	-15	44	2
Mexico		48812	-0.2	1	3	36	11		348	0	-9	-34	55	-12
Peru		19185	-0.7	-2	-10	33	-8		133	0	-4	-3	22	1
Hungary		43480	0.3	2	-2	29	3		65	0	-6	-15	-42	-31
Poland		60269	1.0	2	5	35	6		-22	0	-4	-11	-54	-21
Romania		11380	0.5	3	4	39	16		181	-4	-8	-12	-180	-22
Russia		3571	-0.8	0	2	37	9		159	0	-5	-3	19	-7
South Africa		67632	0.1	1	1	37	14		357	0	-4	-35	25	-23
Turkey		1392	0.0	2	1	38	-6		421	0	-5	-47	34	-24
Ukraine		527	0.0	0	2	5	6		479	0	12	-21	127	-12
EM total		55	0.3	2	3	50	6		421	0	17	-10	97	128

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

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