



- Valuation premium attached to quality firms could extend if rate cuts are delayed ([link](#))
- US Treasury expected to maintain steady pace of long-term debt issuance ([link](#))
- Overnight yen rebound sparks speculation that Japanese authorities have intervened ([link](#))
- ECB June rate cut unfazed by data while extent of 2024 cuts could be challenged ([link](#))
- EM fund outflows extend as initial Fed rate cut expectations are pushed out ([link](#))
- China's property stocks soar on repeal of home purchase restrictions ([link](#))
- Central Bank of Egypt's fine-tuning operation seen as de-facto marginal tightening ([link](#))

Erratum: The updated GMM includes a clarification on China's industrial profit data today and Friday's equity flows from Northbound Stock Connect.

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Yen's Rollercoaster Ride Sets Tone for Eventful Week

The main development is the Yen's fluctuation, which initially climbed to 160 before abruptly dropping by around 5 points, likely reflecting FX intervention, though officials declined to comment.

In the Euro Area, today's releases of Spanish and German headline inflation that printed in line with expectations have solidified expectations for an ECB rate cut in June, although the extent of rate cuts throughout the year might face challenges given that inflation overall remains above target. The affirmed credit ratings for France by Fitch and Moody's prove supportive for sovereign spreads, while Euro Area yields slightly rose alongside Gilts and Treasuries. Risk assets continued Friday's upward trend, with Euro Area stock market gains driven by utility and healthcare sectors. Across Emerging Markets, Botswana's central bank left its policy rate unchanged at 2.4% last week, while the Central Bank of Egypt conducted a liquidity fine-tuning operation perceived by market contacts as a de-facto tightening. In China, the repeal of home purchase restrictions boosted property stocks, while concerns over regulatory measures limiting ultra-long sovereign bond purchases pushed up government bond yields.

Key Global Financial Indicators

Last updated: 4/29/24 8:38 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities							
S&P 500		5100	1.0	3	-3	22	7
Eurostoxx 50		4996	-0.2	1	-2	15	10
Nikkei 225		37935	0.8	2	-6	31	13
MSCI EM		41	1.2	4	0	5	2
Yields and Spreads							
US 10y Yield		4.64	-2.5	3	44	122	76
Germany 10y Yield		2.53	-4.3	5	23	22	51
EMBIG Sovereign Spread		341	-1	-1	-3	-153	-42
FX / Commodities / Volatility							
EM FX vs. USD, (+) = appreciation		46.4	0.1	1	0	-8	-4
Dollar index, (+) = \$ appreciation		105.7	-0.3	0	1	4	4
Brent Crude Oil (\$/barrel)		88.7	-0.9	2	1	12	15
VIX Index (% change in pp)		15.2	0.2	-2	2	-1	3

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

Mature Markets

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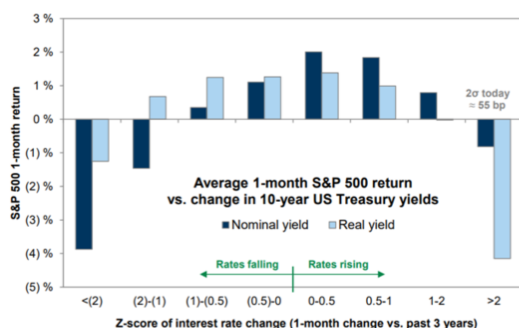
United States

Last Friday, the data on monthly personal consumption expenditures (PCE) and Core PCE deflators printed broadly in line with expectations, assuaging the market concerns over an inflation burst, and prompting bullish sentiment to rekindle. Treasury yields fell by -4bps to 4.66% at the 10y maturity point, and the S&P's tech driven rally continued (+1.1% d/d; +2.8% w/w) with the Nasdaq up +2.0%.

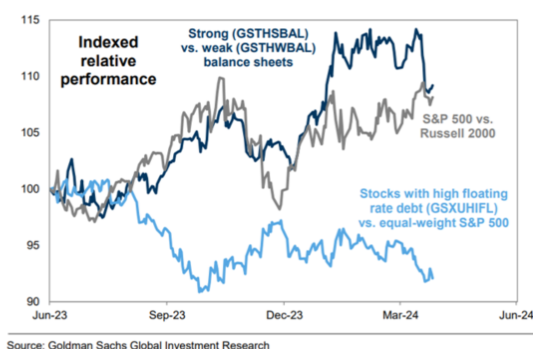
This week's main attention will be the on the Fed meeting on Wednesday, where market contacts expect updates on the quantitative tightening (QT) pace. The expectation is that the Fed will maintain unchanged policy rates, while the US Treasury will reveal its refunding plan for the upcoming quarter. Key economic data to watch includes updates on the US labor market, i.e., jobs, unemployment, and payrolls. Abroad, the central banks of Colombia and the Czech Republic are set to announce interest rate decisions, with consensus predicting a -50bps cut for both. In the Euro area, market contacts anticipate the release of GDP and inflation data for major member states such as Germany and France. China will also announce April PMI figures.

The valuation premium on quality firms is likely to continue if the policy easing cycle starts later. Out of the 229 firms in the S&P500 index that have reported their first-quarter 2024 results, two-thirds have exceeded market expectations for earnings per share (EPS) by an average of 9%. This comes amid rising interest rates. Nominal and real yields on the 10-year Treasury have increased by approximately 70bps and 60bps, respectively, over the year, while market expectations for the number of 25bps cuts by the Fed in 2024 have dropped from 6 to fewer than 2. Since 2006, empirically, a ~2 standard deviations (SD) monthly increase in real yields has gone hand in hand with a -4% decline in the S&P500 (left chart). The recent correction of US equities was fully consistent with this pattern as the index corrected by -4% since mid-March as real yields rose by +40bps (slightly below 2 SD of +55bps). Going forward, Goldman Sachs analysts argue that firms with weaker balance sheets will remain more sensitive to the higher-for-longer rates regime given their poorer cash-flow margins and reliance on floating-rate debt (right chart). This suggests that the premium investors are placing on 'quality' stocks may continue to grow if interest rates remain elevated.

Equities typically struggle when interest rates rise sharply rolling 1-month changes since 2006



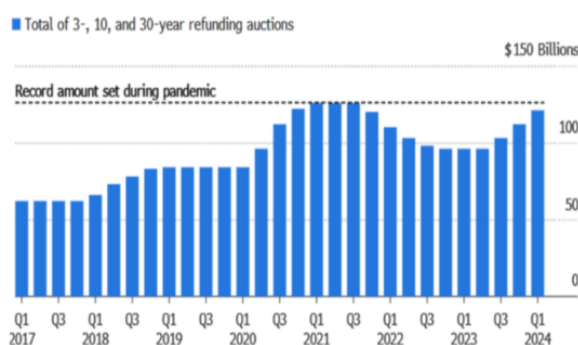
Rate-sensitive segments of the equity have underperformed as of April 25th, 2024



For the next three months, the expectation is that the US Treasury maintains a steady pace of long-term debt issuance at around \$125bn in its upcoming quarterly funding announcement. The rising fiscal deficit, highlighted in the IMF's latest flagship reports, has increased the US government's borrowing requirements (left chart). This comes at a time when higher yields in recent weeks have further elevated the debt servicing costs of the US government. The Congressional Budget Office projects that net interest payments will reach 3.1% of GDP for 2024, the highest level since 1940 (right chart). Meanwhile, market

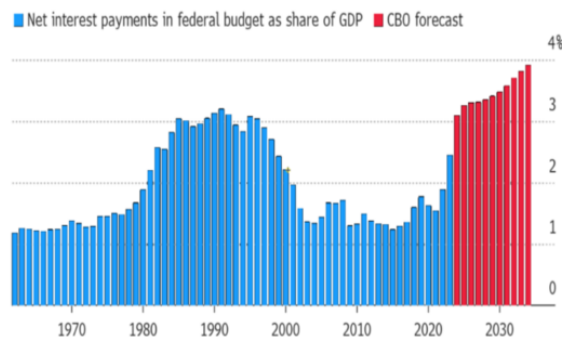
contacts expect the Fed to announce a reduction in its pace of QT from \$60 bn per month to \$30 bn per month. While market contacts expect the reduced QT pace to bolster the demand of longer-dated US Treasuries which have struggled despite higher yields in recent weeks, interest rates are likely to remain high given the higher-for-longer interest rate backdrop that appears increasingly likely.

Quarterly refunding total edges back toward record level



Sources: Bloomberg, and Congressional Budget Office

CBO predicts a surge in US debt cost

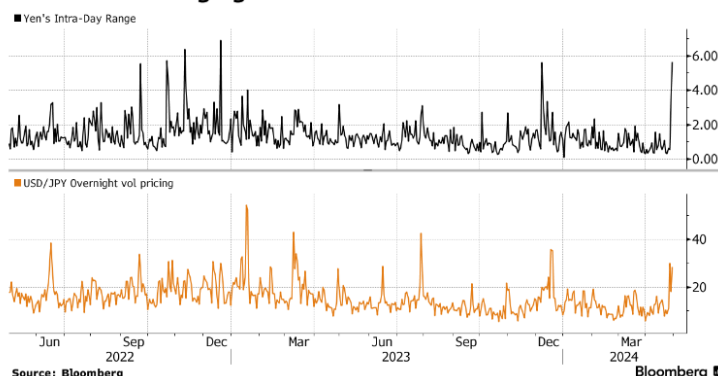


Japan

Market contacts believe that Japanese authorities intervened in the currency market overnight. During a volatile trading session with Japanese financial markets closed for a public holiday, the Yen rallied to 155 against the dollar,

marking a significant move of six yen for the day—a rarity since the pandemic. This marked a notable rebound from its session low of 160 against the US dollar, the first time it had surpassed this level since 1990. The Dow Jones reported that Japanese authorities intervened in the foreign exchange market, citing unidentified people familiar with the matter, while the Vice Minister of Finance Masato Kanda declined to comment until end of May. Earlier, the yen weakened against major currencies, with the yen per euro dropping below 171, its lowest level since the euro's inception. This decline followed the Bank of Japan's decision to keep its policy rate unchanged last Friday, citing the Yen's positive impact on demand with little concern for underlying price inflation. With the central bank decision in the rearview mirror, attention has shifted to the Ministry of Finance's intervention threshold. Analysts at Sumitomo Mitsui suggest that instead of targeting a specific yen level, Japanese authorities may intervene based on the speed of yen depreciation. Commodity Futures Trading Commission (CFTC) data showed that traders' bets on a weaker yen were reaching record highs, accompanied by a surge in implied volatility for the currency pair last week. From here, market contacts are attentive on the extent to which the Yen rebound has stopped out these short positions, prompting speculators to cut losses.

The Yen Is Swinging Like a Yo-Yo

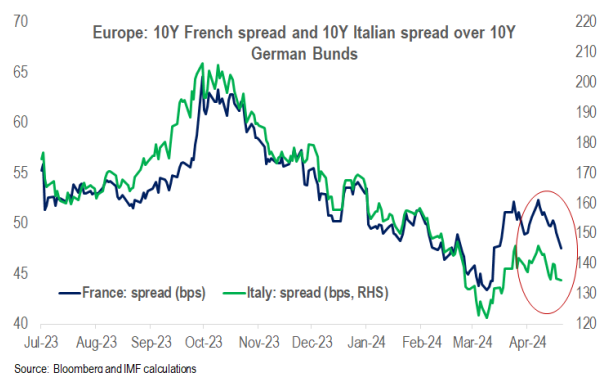


Euro Area

Equities and bonds were in demand this morning. The utilities (+0.9%) and healthcare (+0.7%) sectors drove the gains in the STOXX 600 index (+0.4%). Bund yields at the 10y maturity point declined (-5bps) to trade at around 2.53%. The euro traded flat at around \$1.0706/€.

The credit rating agencies Moody's and Fitch maintained France's stable sovereign credit rating and outlook.

The credit analysts at both rating agencies expect France to reduce its deficit/GDP ratio to 3% by 2027, supporting the unchanged ratings (Moody's: Aa2, Fitch: AA-). Market contacts at Citi foresee relief in French OAT yields due to the agencies' decisions, raising the probability that also S&P's updated credit assessment (due for release on 31 May) will remain unchanged at AA-. This morning, 10y French OAT spreads over 10y German bunds tightened by -2bps to 48bps. Fitch will also release its Italian credit assessment on Friday, with Citi analysts anticipating no negative rating action. Italian 10-year BTP spreads over 10y Bunds tightened similarly by -2bps, reaching a level of 134bps.



This week's economic data is unlikely to deter the ECB's well telegraphed June rate cut, but more sticky inflation data might challenge the pace of rate cuts currently priced in money markets. This morning, Spain's preliminary headline inflation data printed in line with expectations. The April data rose to a +3.4%/y/y pace (exp. 3.4% from 3.3%). At a monthly pace, the data printed slightly lower at +0.6% m/m (exp. +0.7% from +1.4%). Meanwhile core CPI declined to 2.9% y/y (exp. 3.2% from 3.3%), reflecting an eighth consecutive decline and printing at the lowest rate since January 2022. Germany's preliminary April headline inflation data will be released later this afternoon, where the expectation is that prices will slightly accelerate to +2.3%/y/y from +2.2% in the prior month. Analysts at Commerzbank don't expect the regional flash data to challenge the ECB's well telegraphed June rate cut but note that if underlying inflation proves sticky above the 2% target, the ECB may not be able to deliver the pace of rate cuts that markets are currently expecting. Current market pricing assigns around a 90% probability to a June rate cut, with around 72bps of easing priced in for the full year.

Emerging Markets

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EMEA equities were mostly trading higher today, while currencies posted mixed results. Equities in Egypt rallied (+4.5%) while equities in South Africa (+1.1%) and Türkiye also gained. The South African rand was trading stronger against the dollar (+0.2% at 18.76/\$), while CEE currencies diverged against the euro. On the central bank front Botswana last week left its policy rate unchanged at 2.4%.

Asian equities rose across the board while currencies declined. Among stock markets, Asia EM equity markets gained +0.7% on net. Philippine equities outperformed (+2.1%) as data show net foreign outflows from its equity market slowed in the past week. Taiwanese equities similarly climbed (+1.9%), led by gains of semiconductor stocks. Indonesia (+1.3%), Indian (+1.2%) and Korean (+1.2%) equities also posted decent gains. Most Asian currencies depreciated, with Indonesian rupiah (-0.3%), Korean won (-0.2%) and Thai baht (-0.2%) declining.

On Friday, most Latin American currencies and all equity markets strengthened. The Colombian peso and the Brazilian real were the notable outperformers in the region (+1.4% and +0.8%). Rising oil prices have benefitted the Colombian peso as the expectation mounts that the central bank will continue its easing cycle at its meeting tomorrow (-50bps to 11.75%). All major equity markets have gained at least 1% on Friday lead by Brazil's Ibovespa index (1.5%). The region also saw two notable credit rating actions. S&P downgraded Peru's sovereign rating by one notch to BBB- on the back of sustained political uncertainty. Moody's downgraded Bolivia's sovereign rating by two notches to Caa3 as the country's reserves continue to decline, which follows the credit rating downgrades by Fitch and S&P over the last six months.

Emerging market capital flows

Bond and equity funds continue to see outflows for a second consecutive week. As markets continue to push out their expectations for the initial Fed rate cut, the deteriorating risk sentiment left scars on emerging market fund flows. Among emerging market equity funds, last week's outflow (-\$3.5bn) drove more than half of the year-to-date outflows (-\$6.6bn). Among EM bond funds, outflows last week have been more modest (-\$1.6bn), even though year-to-date, the outflows from these fund types have been much deeper (-\$11.4bn).

Figure 1: Weekly cross-asset flows

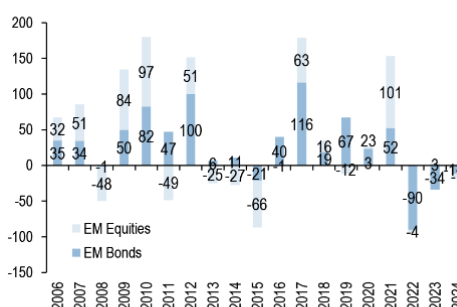
USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-5.0	-18.0
EM Bonds		-1.6	-11.4
Hard Ccy		-0.7	-6.1
Local Ccy ^A		-0.9	-5.3
o.w. EM ex-China		-0.8	-4.3
o.w. China		-0.1	-1.0
EM Equities		-3.5	-6.6
US HG		1.0	136.3
US HY		0.5	2.0
Global Equities		3.6	55.0
EM Bond and Equity ETFs		-1.9	6.2
EM Bond ETFs		-0.1	-3.0
EM Equity ETFs		-1.8	9.2
Non-resident EM flows[*]		-5.0	4.3

^{*}High-frequency non-resident EM portfolio flow data where available. ^ALocal ccy split is retail only. Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

Figure 2: EM bond and equity fund flows

USD billion

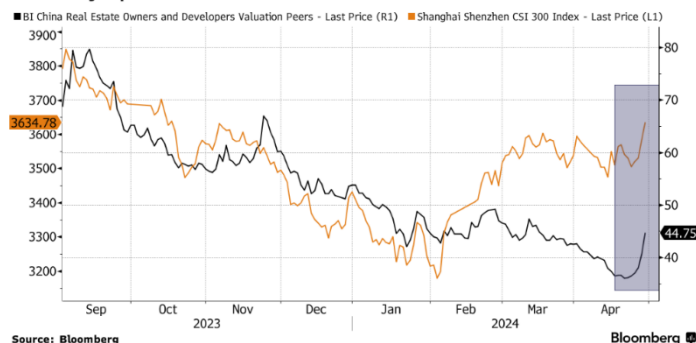


China

Repeal of home purchase restrictions boosted property stocks, while concerns over regulatory measures limiting ultra-long sovereign bond purchases pushed up government bond yields. Chinese equities saw gains, with the CSI 300 rising by +1.1% and HKSAR-listed stocks by +0.2%, and Bloomberg's gauge on Chinese developers' valuation up by 12% (below chart). CIFI Holdings' agreement to restructure offshore debt fueled investor optimism, which speculation about more cities lifting home purchase restrictions following Chengdu's repeal of such measures further amplified. Positive sentiment extended beyond property, evident in record high single-day net inflows via the Northbound Stock Connect on Friday despite disappointing industrial profit growth data, which fell to -3.5% y/y in March from +10.2% y/y in January to February. Chinese government bond yields rose by +5bps and +7bps at the 10-year and 30-year maturity points due to concerns over potential regulatory measures. Certain branches of the People's Bank of China allegedly advised regional and rural banks to limit exposure to ultra-long-term sovereign bonds and reduce leverage and duration in bond investments. The RMB remained stable.

Property Turns

Investors jump into real estate to lift Chinese stocks



Peru

S&P downgraded Peru on the grounds of political turmoil. The credit rating agency's decision follows a sustained political turmoil in the country, which is likely to weigh on the country's growth outlook and its ability to rebuild fiscal buffers. While the agency has kept the outlook of the country as stable, the country's

credit rating now stands at BBB- (from BBB), which is the lowest investment grade rating notch. Fitch affirmed its BBB credit rating for the country, although the rating outlook remains negative.

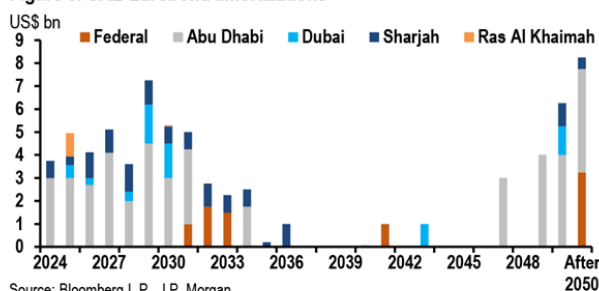
UAE

Abu Dhabi last week sold its first Eurobond since 2021, raising \$5bn.

The capital of the United Arab Emirates (UAE) sold 5-, 10-, and 30-year tranches. Bloomberg highlights that despite higher borrowing costs for dollar issuers against a backdrop of the recent shift in global interest-rate expectations, Abu Dhabi's rating (AA by S&P) has enabled the emirate to come to the market with limited impact on its borrowing costs. The final yields were tighter than initial guidance against a backdrop of strong demand at 4.8 times

issuance, with the respective spreads over UST at +35bps, +45bps, and +90bps. Market contacts note that the deal sets the stage for further issuance from Abu-Dhabi's government-related entities to issue later this year. According to Bloomberg, emerging market government's dollar- and euro-denominated bond issuance amounts to almost \$100bn so far this year.

Figure 5: UAE Eurobond amortizations



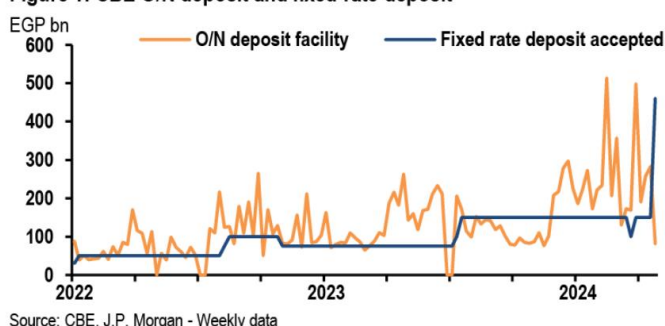
Egypt

The central bank's amendment to its 7-day main operation as de-facto seen as a marginal tightening.

The Central Bank of Egypt (CBE) announced last week that as of April 23, its main operations will be carried out through fixed-rate tenders with full allotment at the mid-corridor rate. The fixed-rate deposit pays the mid-corridor rate (27.75%), 50bps higher than the overnight deposit rate. Market contacts at JP Morgan note that the change implies a de-facto policy rate hike, given that the new facility does not have a limit and the interbank rate is expected to move from the deposit towards the mid-corridor rate. They interpret the decision as reflective of the CBE's commitment to control liquidity and impose tight conditions, following +800bps of cumulative interest rate hikes since the start of this year.

The decision also mirrors the CBE's changing focus on fine-tuning liquidity operations as opposed to another large interest rate hike. Nevertheless, JPMorgan analysts still expect a -200bps rate hike at the upcoming CBE meeting in May.

Figure 1: CBE O/N deposit and fixed-rate deposit



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), 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-New York Representative), Benjamin Mosk (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Mustafa Oguz Caylan (Research Officer), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Senior 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), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Sonal Patel (Senior Financial Sector Expert-London Representative), Silvia Ramirez (Senior 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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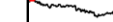














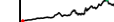
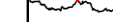




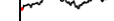



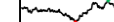
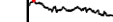

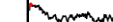
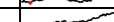
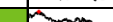


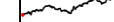

Global Financial Indicators

4/29/24 8:38 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		5112	1.0	2	-3	23	7
Europe		4996	-0.2	1	-2	15	10
Japan		37935	0.8	2	-6	31	13
China		3624	1.1	3	2	-10	6
Asia Ex Japan		68	1.0	4	1	3	3
Emerging Markets		41	1.2	4	0	5	2
Interest Rates			basis points				
US 10y Yield		4.64	-2.5	3	44	122	76
Germany 10y Yield		2.53	-4.3	5	23	22	51
Japan 10y Yield		0.89	0.0	0	16	50	28
UK 10y Yield		4.30	-2.6	9	37	58	76
Credit Spreads			basis points				
US Investment Grade		118	-0.3	-4	-1	-43	-16
US High Yield		349	1.1	-13	2	-132	-36
Exchange Rates			%				
USD/Majors		105.67	-0.3	0	1	4	4
EUR/USD		1.07	0.2	1	-1	-2	-3
USD/JPY		156.4	-1.2	1	3	14	11
EM/USD		46.4	0.1	1	0	-8	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		88.7	-0.9	2	2	17	16
Industrials Metals (index)		158	0.7	0	13	3	11
Agriculture (index)		60	0.3	1	0	-10	-4
Implied Volatility			%				
VIX Index (% change in pp)		15.2	0.2	-1.7	2.2	-0.6	2.8
Global FX Volatility		7.5	0.1	0.2	1.0	-1.5	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		101	-1.4	-5	-8	-87	-3
Italy		134	-1.4	-3	-5	-53	-34
Portugal		62	-1.7	-1	-9	-20	-1
Spain		77	-1.1	0	-9	-27	-19

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

Emerging Market Financial Indicators

Last updated: 4/29/2024 8:40 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		7.24	0.1	0.0	0	-5	-2		2.4	5.5	13	8	-65	-11
Indonesia		16255	-0.3	-0.1	-2	-10	-5		7.2	4.3	17	53	69	74
India		83	-0.1	-0.1	0	-2	0		7.5	-2.1	0	38	26.3	33
Philippines		58	0.0	-0.2	-3	-4	-4		5.8	1.1	13	33	-22	13
Thailand		37	-0.2	-0.1	-2	-8	-8		2.9	0.5	-1	39	26	19
Malaysia		4.77	0.0	0.2	-1	-6	-4		4.0	-1.1	3	14	28	26
Argentina		875	-0.1	-0.4	-2	-75	-8		40.5	5.9	-394	-1331	-5025	-4584
Brazil		5.12	0.0	1.0	-2	-2	-5		11.7	1.1	14	66	-76	133
Chile		946	0.5	0.8	4	-15	-7		5.4	-0.4	10	26	24	52
Colombia		3903	1.3	0.2	-1	16	-1		8.6	0.0	21	82	-52	92
Mexico		17.10	0.4	0.2	-3	5	-1		9.6	0.5	16	81	121	111
Peru		3.7	0.3	-1.6	-1	0	-1		7.4	0.3	-7	4	-10	71
Uruguay		38	0.9	1.0	-2	1	2		9.1	1.9	10	10	-110	-45
Hungary		366	0.3	1.2	0	-7	-5		7.0	-7.0	-3	43	-84	122
Poland		4.04	0.0	0.3	-1	4	-3		5.4	-4.6	0	39	-4	88
Romania		4.6	0.2	0.6	-1	-3	-3		6.6	0.0	8	22	-51	41
Russia		93.3	-1.5	0.5	-1	-14	-4							
South Africa		18.7	0.5	2.5	1	-2	-2		10.0	-9.5	-14	24	67	91
Türkiye		32.38	0.4	0.4	0	-40	-9		28.0	-14.0	-85	116	1509	123
US (DXY; 5y UST)		106	-0.3	-0.4	1	4	4		4.66	-2.5	1	45	118	82

	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
								basis points						
China		3624	1.1	3	2	-10	6		144	1	-5	-54	-14	
Indonesia		7156	1.7	1	-2	3	-2		105	8	5	-48	9	
India		74671	1.3	1	1	22	3		100	-3	-6	-62	-16	
Philippines		6770	2.1	5	-2	2	5		91	8	5	-33	11	
Thailand		1362	0.1	1	-1	-11	-4		0	0	0	0	0	
Malaysia		1583	0.5	1	3	12	9		83	-1	-1	-22	-2	
Argentina		1279459	2.8	8	5	329	38		1215	-4	-216	-1438	-698	
Brazil		126526	1.5	1	-1	21	-6		213	-4	4	-70	-2	
Chile		6393	1.3	0	-4	18	3		119	3	-5	-23	-6	
Colombia		1367	1.2	2	3	14	14		299	-7	6	-135	28	
Mexico		57834	1.3	4	1	5	1		304	-15	-10	-91	-30	
Peru		28902	1.0	5	2	32	11		148	2	9	-33	4	
Hungary		67454	0.6	4	3	50	11		150	0	-1	-79	1	
Poland		84365	-0.1	0	2	34	8		92	0	-5	9	-5	
Romania		17106	0.7	1	0	39	11		183	0	0	-76	-18	
South Africa		76316	1.3	4	2	-2	-1		338	-8	-18	-86	30	
Türkiye		9946	0.3	3	9	115	33		276	-9	-34	-250	-38	
EM total		41	0.8	4	0	5	2		286	-2	-12	-139	-60	

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

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