GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, APRIL 3, 2024

LEAD EDITOR: SANJAY HAZARIKA

- **Dollar high yield bond market sees rising levels of distressed debt** (link)
- **Divergence in US tech stocks signals potential market risk** (link)
- **Earthquake in Taiwan POC could disrupt semiconductor supply** (link)
- **US equity trend suggests continued investor confidence in US economy** (link)
- **Bank of Japan maintains pace of bond purchases** (link)
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Markets cautious ahead of US jobs report

US equity index futures were down and Treasury yields hovered near their highest levels of the year as markets remained cautious ahead of Friday's key US jobs report. This morning's ADP jobs report was stronger than expected, pushing Treasury yields even higher. Euro area stocks posted modest gains, while UK equities lost ground. Developments in dollar high yield bond markets signaled more troubled times ahead as a number of companies seek to renegotiate the terms of their debt. Meanwhile, some are worried that the big US technology stocks are losing their momentum, putting the broader market at risk. Others are more optimistic, pointing to the outperformance of cyclical stocks versus defensive stocks. Market participants are keeping an eye on the fallout from the earthquake in Taiwan POC and its potential impact on the supply of semiconductors.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
4/3/24 8:13 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5206	-0.7	0	1	26	9
Eurostoxx 50		5063	0.4	0	3	17	12
Nikkei 225		39452	-1.0	-3	-2	39	18
MSCI EM		41	0.3	1	2	4	3
Yields and Spreads					bps		
US 10y Yield		4.37	1.8	18	19	96	49
Germany 10y Yield		2.38	-2.1	9	-4	12	36
EMBIG Sovereign Spread		340	5	-5	-28	-144	-44
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.6	0.1	0	0	-8	-3
Dollar index, (+) = $ appreciation		104.7	-0.1	0	1	3	3
Brent Crude Oil ($/barrel)		89.8	1.0	4	8	6	17
VIX Index (%, change in pp)		15.0	0.3	2	2	-4	3

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

Mature Markets

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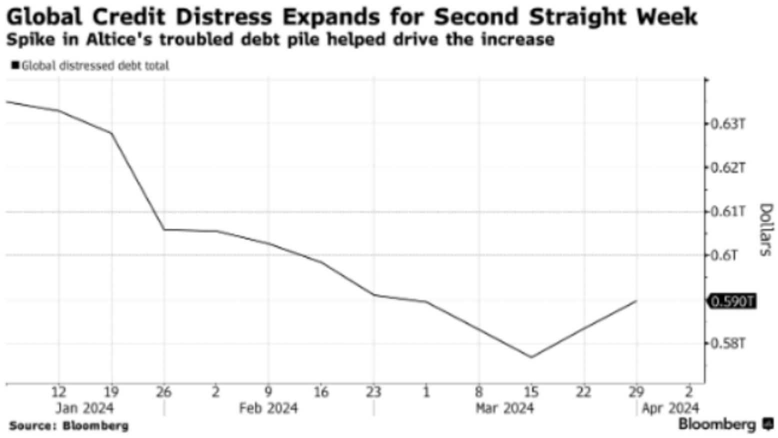
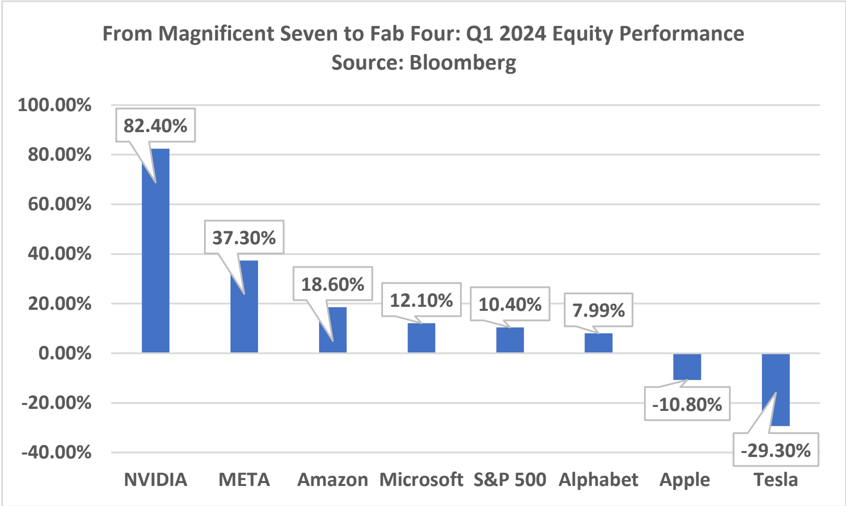
United States

The high yield US dollar denominated bond market is under pressure as multiple companies seek to renegotiate their debt. Bloomberg's measure of debt in distress was up for a second week to $590 mn and rising interest rates are intensifying the pressure on less creditworthy companies. The latest move was triggered by the French telecom company Altice, which is trying to renegotiate terms and impose a haircut on $16.5 bn of debt, leading to multi notch downgrades by S&P and Moody's (to CCC+ and Caa2 respectively). Other companies in distress include the US satellite TV company Dish and Astound Broadband. Bloomberg estimates that the distressed debt of telecom, satellite, and cable companies has risen to almost $70 bn. Some analysts are worried that this trend could be a harbinger of a turn in the credit cycle.

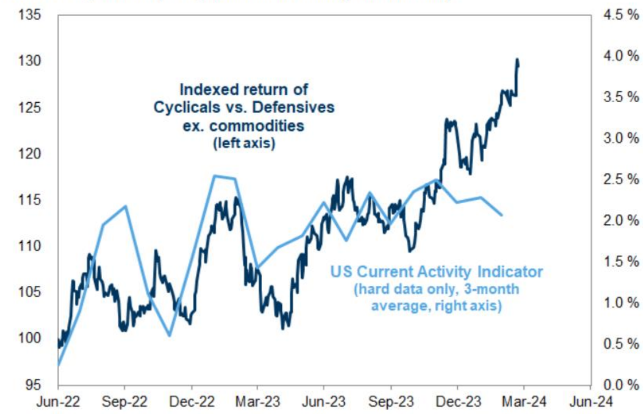


The big US technology stocks leading the ongoing equity rally have diverged in Q1 2024. The so-called "Magnificent Seven" appear to have contracted to the "Fab Four," with four companies delivering very strong earnings and outperforming the market in Q1, while Alphabet (Google) has underperformed the S&P 500 and Apple and Tesla are actually down for the year during the quarter. Some analysts are worried that even greater concentration of market leaders could pose risks for the overall market. Others are less concerned, pointing out that the equal weight S&P 500 also set a new record in Q1, bolstered by very strong earnings and profits in a wide variety of sectors ranging from energy to banking and industrials.



Trends within the US equity market suggest that investors are optimistic about the US economy. Cyclical stocks are now significantly outperforming defensive stocks as multiple US economic data releases come in stronger than forecasts. However, Goldman analysts think the equal weight S&P 500 is overvalued by 13%, as measured by the current price-earnings (PE) ratio of 17. Their analysts estimate that the index would be fairly valued at a PE ratio of 15. On the brighter side, their data show that the index return over a six month horizon is positive on average even when it is overvalued by 10–20%. Separately, Citi estimates that net positioning among investors is in the most bullish top quintile.

Exhibit 5: Equities are pricing optimism about the growth backdrop



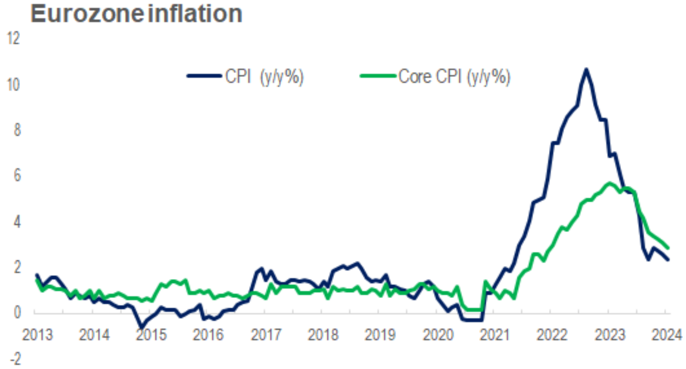
Source: Goldman Sachs Global Investment Research

Euro Area

European equities were generally higher this morning. The euro was flat against the dollar, trading at around 1.07. **Euro area sovereign yields were a touch lower with the 10y bund yield trading at 2.39%.** 10Y Italian BTP spreads over 10Y bunds were wider (+3bps) at 147bps.

Eurozone March flash headline inflation decelerated by more than expected. Flash headline inflation printed at 2.4% y/y in March (2.5% expected, 2.6% prior), while flash core inflation came in at 2.9% y/y (3.0% expected, 3.1% prior), falling below 3% y/y for the first time since March 2022. Following the data release, **market pricing for ECB rate cuts in 2024 remained broadly unchanged with around 92bps of rate cuts expected this year, with the first 25bps rate cut fully priced in for June**. Analysts at HSBC expect policymakers to keep rates unchanged at next week's ECB meeting given the "strong signal" that the first rate cut will come in June, with comments from ECB Governing Council member Holzmann this morning reiterating recent remarks from policymakers saying that, "April is not on my radar. In June we will have more information".

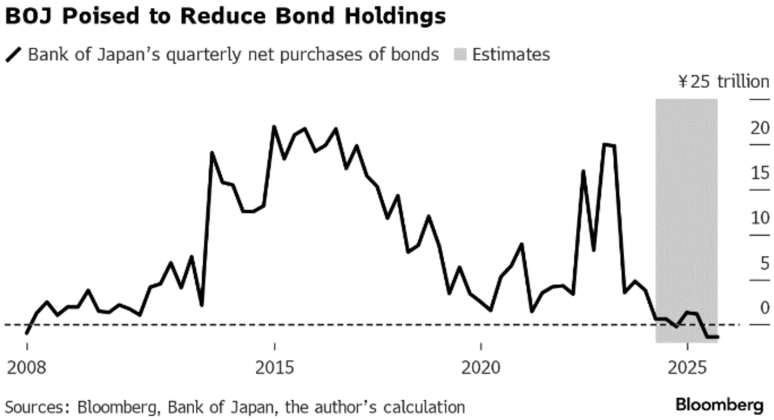
Eurozone inflation



Source: Bloomberg and IMF calculations

Japan

Japanese equities declined -0.3%. Separately, the **BOJ kept Japanese government bond (JGB) purchases at the same level in the first scheduled operation of the new fiscal year.** The BOJ offered to buy ¥375bn ($2.5bn) of 1–3Y JGBs; amounts for other tenures were unchanged as well. Market participants said BOJ is likely cautious about reducing purchase amounts now, but still expect the BOJ to eventually scale back bond buying amount as stated in the March monetary policy meeting. The yen was slightly weaker versus the dollar while JGB yields were lower.



Emerging Markets

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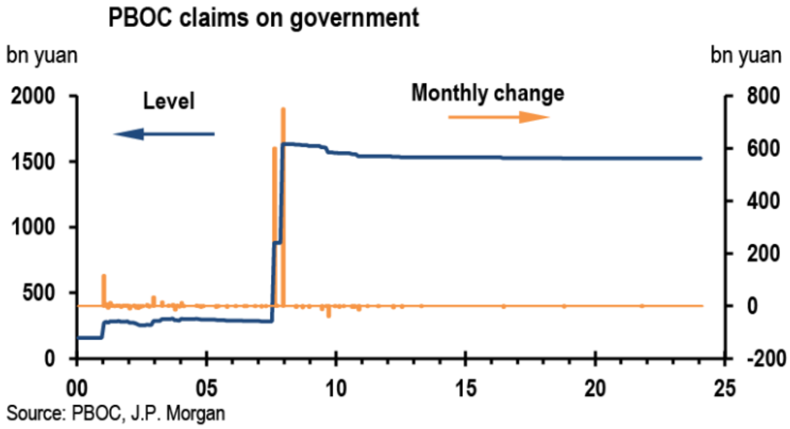
EMEA equities were mixed, while currencies were mostly stable. Government bonds yields remained stable in Poland and Romania, where the consensus expects the respective central banks to keep rates unchanged tomorrow. The benchmark rate is also expected to remain unchanged at 13% in Kenya where the central bank meets later today. **Asian equities slumped -0.8% on net,** dragged down by dimming Fed rate cut expectations. **Asian currencies broadly weakened.** Taiwan POC was hit by a 7.4 magnitude earthquake, the strongest since 1999. There are reductions to some semiconductor production operations; Barclays believes that if these reductions become persist, they could result in some tech supply chain disruptions and upstream pricing pressures. Separately, Taiwan POC's central bank said it intervened in March to maintain order in the forex market. **Vietnam**'s Prime Minister Chinh urged ministries to take "drastic actions" to achieve the 6.5% GDP growth target in 2024, Bloomberg reported. **Yesterday, the major Latin American currencies gained against the US dollar yesterday with the exception of the Brazilian real**. The Colombian peso and local equities outperformed regional peers (+0.9% and 1.1% respectively) on a day where oil prices continued their increase. The bulk of the move in rates markets were in Brazil and Colombia where yields sold off.

China

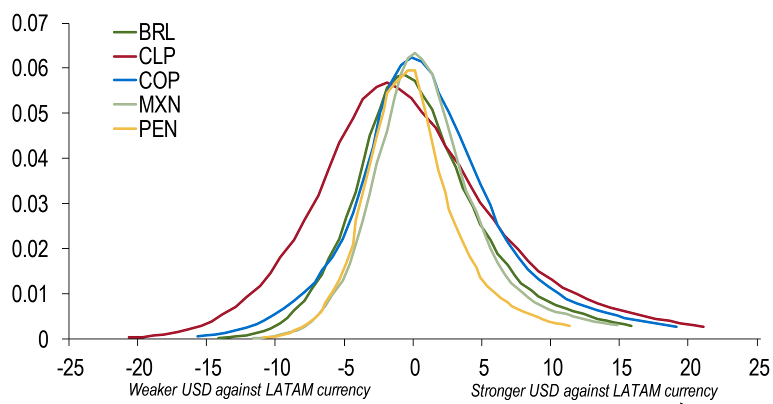
Chinese equities fell -0.4%. The People's Bank of China (PBOC)'s monetary policy committee said in a quarterly meeting that the Chinese economy faces challenges from insufficient demand and weak growth expectations. The PBOC vowed to boost domestic demand and keep liquidity ample. Separately, JP Morgan believes that last week's report of the PBOC considering larger government bond purchases in the open market is a possible policy move, given the limited room for further bank reserve requirement ratio cuts.



Chile

Markets see scope for the Chilean peso to appreciate over the next three months. The Chilean central bank continued it easing cycle yesterday, cutting its policy rate by 75 bps to 6.5%, a slower pace than previous 100 bps rate cuts. The decision was unanimous among policy makers with the guidance that the easing cycle will continue. The peso has been one of the worst performers across major currencies so far this year (-9.9%, YTD). Despite the underperformance, option markets assign a probability near 60% for the currency to appreciate against the US dollar over the next three months. Other regional central banks are also slowing their easing cycles as rising US interest rates and a stronger dollar are raising fears about the return of inflation. Peru's central bank halted its easing cycle following a higher-than-expected inflation print whereas the Brazilian central bank has signaled it will reduce its pace of easing in its upcoming meetings.

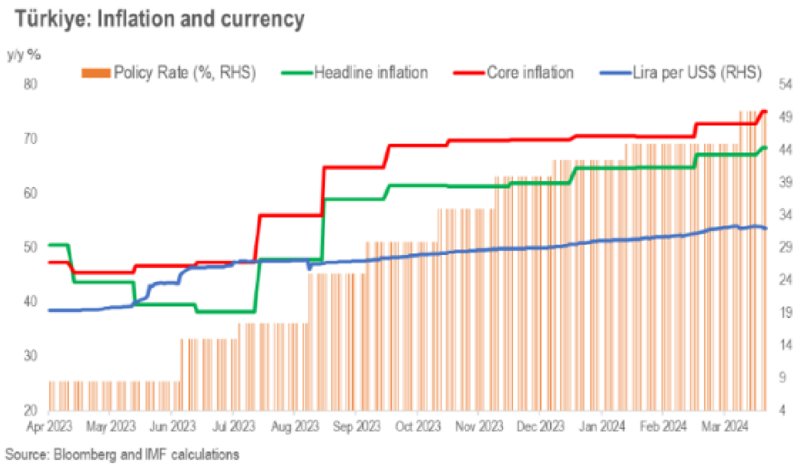
Markets still see scope for CLP strengthening against USD over the next 3-months
Implied probability



Source: Bloomberg FXFM <GO>, IMF Staff Analysis.

Türkiye

The Turkish lira gained after consumer prices accelerated by less than expected in March. March headline inflation data was 68.5% y/y (69.1% expected, 67.1% prior) with monthly inflation slowing to 3.2% m/m in March, from 4.5% m/m in February, the lowest since December. Following the release, **the Turkish lira appreciated marginally (+0.2%) against the dollar to trade at 32.01/$.** Core inflation reached 75.2% y/y in March, from 72.9% y/y in February. Türkiye's government bonds also gained after today's inflation data, with yields on two-year and five-year tenors decreasing respectively by -18bps and -16bps.



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Global Financial Indicators

4/3/24 8:14 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5204	-0.7	0	1	26	9
Europe		5063	0.4	0	3	17	12
Japan		39452	-1.0	-3	-2	39	18
China		3568	-0.4	2	1	-13	4
Asia Ex Japan		68	0.3	1	2	1	3
Emerging Markets		41	0.3	1	2	4	3
Interest Rates					basis points		
US 10y Yield		4.37	1.8	18	19	96	49
Germany 10y Yield		2.38	-2.1	9	-4	12	36
Japan 10y Yield		0.80	4.7	7	8	41	18
UK 10y Yield		4.05	-3.4	12	-6	62	51
Credit Spreads					basis points		
US Investment Grade		120	0.0	-1	-10	-41	-14
US High Yield		352	-1.4	3	-15	-130	-33
Exchange Rates					%		
USD/Majors		104.70	-0.1	0	1	3	3
EUR/USD		1.08	0.1	0	-1	-1	-2
USD/JPY		151.8	0.1	0	1	15	8
EM/USD		46.6	0.1	0	0	-8	-3
Commodities					%		
Brent Crude Oil ($/barrel)		89.8	1.0	5	9	14	17
Industrials Metals (index)		143	0.6	3	3	-10	0
Agriculture (index)		60	0.8	0	3	-13	-5
Implied Volatility					%		
VIX Index (%, change in pp)		15.0	0.3	1.7	1.8	-3.6	2.5
Global FX Volatility		6.7	0.0	0.1	0.2	-3.6	-1.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		108	1.1	1	1	-86	5
Italy		147	2.7	15	-1	-38	-21
Portugal		70	-0.2	2	-3	-12	7
Spain		87	0.4	2	-3	-15	-10

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

Emerging Market Financial Indicators

Last updated: 4/3/2024 8:18 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	0.0	-0.1	-1	-5	-2		2.3	2.6	-3	-4	-80	-18
Indonesia		15920	-0.1	-0.4	-1	-6	-3		6.7	0.5	-4	6	-9	21
India		83	-0.1	-0.1	-1	-1	0		7.3	2.9	7	6	(24.2)	4
Philippines		56	-0.2	-0.4	-1	-3	-2		5.4	0.5	0	1	-54	-19
Thailand		37	-0.2	-1.0	-3	-7	-7		2.6	3.5	5	2	-2	-12
Malaysia		4.76	-0.1	-0.5	-1	-7	-3		3.9	0.5	2	2	-4	14
Argentina		858	-0.1	-0.5	-2	-76	-6		52.7	0.0	-115	-1719	-3440	-3368
Brazil		5.07	-0.3	-1.7	-2	0	-4		11.3	1.0	20	48	-163	86
Chile		969	0.7	1.2	1	-16	-9		5.3	0.0	11	9	11	35
Colombia		3830	0.9	0.7	3	20	1		8.1	0.0	32	50	-44	48
Mexico		16.58	-0.2	-0.2	2	9	2		8.9	-0.3	19	27	58	48
Peru		3.7	0.6	0.4	2	2	0		7.5	-0.1	16	65	-2	83
Uruguay		38	-0.4	-0.6	3	2	3		9.0	1.2	4	2	-131	-51
Hungary		365	0.5	0.0	0	-5	-5		6.6	-1.0	7	54	-194	82
Poland		3.98	0.0	0.0	0	8	-1		5.1	5.3	11	31	-32	65
Romania		4.6	0.1	-0.3	-1	-2	-2		6.4	3.5	1	6	-83	19
Russia		92.2	0.2	0.2	-1	-15	-3							
South Africa		18.8	-0.1	0.6	1	-5	-2		9.8	-4.5	1	28	64	66
Türkiye		31.94	0.3	1.1	-1	-40	-8		26.3	8.0	-45	-100	1594	-49
US (DXY; 5y UST)		105	-0.1	0.4	1	3	3		4.36	2.1	18	21	86	52

	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		3568	-0.4	2	1	-13	4		147	-2	0	-43	-11
Indonesia		7167	-1.0	-3	-2	5	-1		92	-8	-17	-68	-4
India		73877	0.0	2	0	25	2		106	0	9	-62	-10
Philippines		6864	-1.4	0	-1	6	6		80	-6	-11	-52	0
Thailand		1376	-0.3	0	1	-14	-3		0	0	0	0	0
Malaysia		1537	-0.7	0	0	8	6		82	-2	3	-19	-3
Argentina		1213485	-0.1	2	21	401	31		1456	25	-175	-857	-457
Brazil		127549	0.4	0	-1	26	-5		212	3	0	-61	-3
Chile		6634	-0.1	2	2	25	7		122	-2	-11	-26	-3
Colombia		1373	1.3	3	7	16	15		292	-1	-9	-93	21
Mexico		57582	-0.1	2	4	7	0		310	-4	-14	-78	-24
Peru		28137	-0.5	-2	-1	28	8		141	2	-3	-53	-3
Hungary		66173	0.5	2	0	54	9		150	-1	-12	-89	1
Poland		82445	-0.5	3	0	40	5		94	-3	-5	12	-3
Romania		17051	0.2	1	7	39	11		180	-2	-21	-83	-21
South Africa		73923	-0.7	1	2	-4	-4		359	3	6	-44	51
Türkiye		8957	-0.9	2	-2	85	20		292	-18	-33	-188	-22
Ukraine		507	0.0	0	0	0	0		3561	74	-315	-1409	-443
EM total		41	-0.5	1	2	4	3		292	-6	-27	-122	-53

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

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