



- Euro area yields fall after disappointing PMI data ([link](#))
- UK PMIs also weaker than expected ([link](#))
- Foreigners sell Chinese stocks at fastest pace since 2015 ([link](#))
- US equity gains are very narrowly distributed among a few companies ([link](#))
- Foreigners increased purchases of US Treasuries ([link](#))
- Corporate bonds outperformed US equities during the recent selloff ([link](#))

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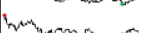
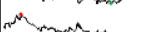
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## Markets hold steady ahead of Jackson Hole conference

US equity index futures posted modest gains and stocks in Europe were mostly higher as markets await the latest earnings report from Nvidia and Fed Chair Powell's speech at the Fed's Jackson Hole conference on Friday. Investors seek insight on the future course of Fed interest rate policy, as the Fed Funds futures markets assigns a probability of less than 50% to another rate hike in 2023 but rate cuts are still expected in the first half of next year. Weaker than expected PMI data in Europe and the UK pushed bund, gilt and Treasury yields lower as traders reassessed their views about rate hikes from the major central banks. The US will also report PMI data later today, providing more clarity about the strength of the US economy. Meanwhile, worries about China continue to take center stage as foreign investors flee the country at the fastest pace since 2015 and emerging market funds turn underweight on China. Oil prices are down again today on fears that global demand will be weaker in the months ahead.

Key Global Financial Indicators

Last updated: 8/23/23 8:02 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		4388	-0.3	-1	-3	6	14
Eurostoxx 50		4254	-0.2	-1	-3	16	12
Nikkei 225		32010	0.5	1	-2	13	23
MSCI EM		38	-0.2	-1	-5	-3	1
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.27	-5.4	2	44	122	40
Germany 10y Yield		2.55	-9.7	-10	8	123	-2
EMBIG Sovereign Spread		422	-2	4	6	-79	-30
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		47.9	0.0	1	-2	-4	-4
Dollar index, (+) = \$ appreciation		103.9	0.3	0	3	-4	0
Brent Crude Oil (\$/barrel)		82.9	-1.3	-1	2	-17	-3
VIX Index (% change in pp)		16.9	0.0	0	3	-7	-5

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

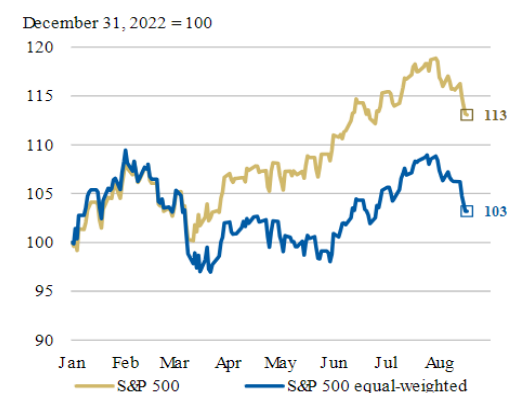
## Mature Markets

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### United States

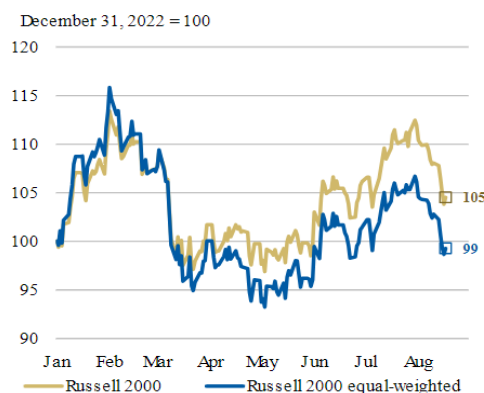
**Equity gains in the US market are very narrowly distributed, with just a few companies seeing most of the gains.** The big technology companies and artificial intelligence (AI) related stocks have done much better than the rest of the market. Comparing the market capital-weighted index to the equal weighted-index shows that the latter's gains for the year are very small compared to the former. For the Russell 2000 index of smaller companies, the equal-weighted index is actually down for the year. This situation could present financial stability risks because if the small group of companies with big gains starts to sell off significantly, they could drag the rest of the market down with them and inject volatility into the financial system.

**Exhibit 7:** S&P 500 index: market capitalization-weighted vs. equal-weighted YTD performance



Source: Morgan Stanley Research, Bloomberg

**Exhibit 8:** Russell 2000 vs. Russell 2000 equal-weighted YTD performance

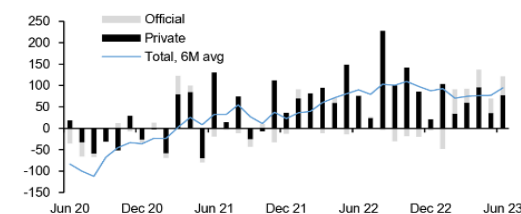


Source: Morgan Stanley Research, Bloomberg

**Foreign investors increased their purchases of US Treasuries in June, according to the latest Treasury International Capital (TIC) data.** Purchases were up at \$171 bn compared to \$70 bn the month before, and demand was robust not just for both government bonds, but also for agency securities and corporate bonds. UK and Cayman Island based investors bought the most bonds (many foreign investors route their bond purchases through institutions located in these jurisdictions). Some analysts worry that the recent surge in interest rates and resultant mark-to-market losses on these purchases could push interest rates even higher if investors decide to sell the bonds they bought earlier in the year.

**Figure 5: Foreign investors purchased \$121bn of long-term US securities in June, up from \$70bn in May...**

Net sales by US residents of long-term (>1Y to maturity) US securities\* to foreigners and 6-month moving average; \$bn



Source: Treasury International Capital (TIC) System, J.P. Morgan  
\*Include Treasuries, Agencies/MBS, and US corporates

**Figure 6: ...And demand was strong across the product spectrum and by investor type in June...**

Net sales by US residents of long-term (>1Y to maturity) US securities to foreigners by sector, investor type\*, and by month, as well as 1H23, 2H22, and 1H22 totals; \$bn

	Jun 23	May 23	Apr 23	1H23	2H22	1H22
<b>Treasuries</b>	66.4	34.3	98.2	407.1	394.7	359.3
Private	35.6	3.5	59.4	279.0	482.2	445.1
Official	30.8	30.7	38.8	128.1	-87.5	-85.8
<b>Agencies/MBS</b>	22.9	-9.8	28.8	37.5	71.0	78.0
Private	11.9	-11.5	26.6	13.8	59.7	-3.2
Official	11.0	1.6	2.3	23.7	11.3	81.2
<b>Corporates</b>	32.0	45.4	9.9	123.3	61.6	102.3
Private	30.7	43.3	10.3	115.0	59.1	88.2
Official	1.2	2.1	-0.4	8.3	2.5	14.1
<b>Grand Total</b>	121.3	69.8	136.9	567.9	527.3	539.6
Private	78.2	35.4	96.3	407.9	601.1	530.1
Official	43.1	34.5	40.6	160.1	-73.8	9.6

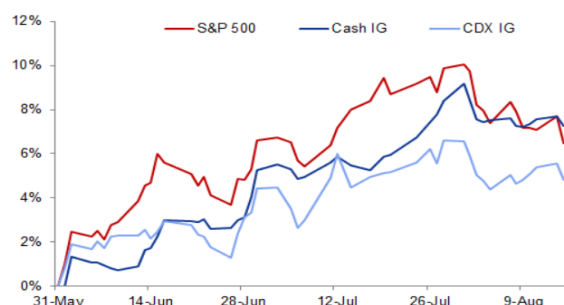
Source: Treasury International Capital (TIC) System, J.P. Morgan  
\*Excludes International Regional Organizations (IROs)

Note: Corporates include corporate ABS. Agencies/MBS is calculated as price-adjusted change in holdings

**US corporate bonds outperformed US equities over the course of the ongoing selloff.** Stocks did better during the summer rally but are coming down faster than bonds. Goldman analysts attribute this to factors such as relatively low net issuance for corporate bonds, technology stocks being hit hard by the sharp rise in long term interest rates and credit markets being more resistant to growth concerns. Investment grade (IG) have strong cash buffers and their interest costs remain well under control. Although high yield (HY) companies face more challenges, many of them successfully modified their debt profiles so that the debt maturities extend further into the future and there is not much immediate need for cash. However, default rates are increasing, with HY bond defaults up to 2.7% and leveraged loans up at 4%. If interest rates remain high and the economy goes into recession, the HY and leveraged loan sectors could come under pressure.

**Exhibit 1 : The recent selloff in equities has erased the gains made vs. credit since the end of May**

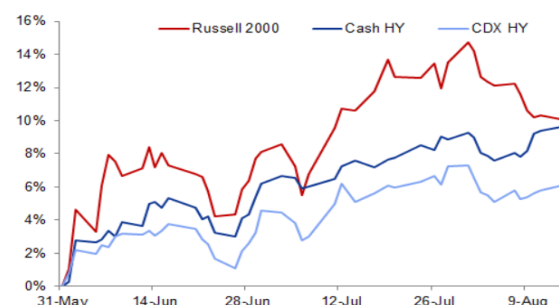
Returns across the S&P 500, USD IG cash market and CDX IG synthetic index; USD IG cash returns are rates- and duration-hedged; USD IG cash and CDX IG synthetic index returns are beta-adjusted relative to the S&P 500



Source: Bloomberg, Goldman Sachs Global Investment Research

**Exhibit 2 : Favorable supply technicals have supported the USD HY cash market**

Returns across the Russell 2000, USD HY cash market and CDX HY synthetic index; USD HY cash returns are rates- and duration-hedged; USD HY cash and CDX HY synthetic index returns are beta-adjusted relative to the Russell 2000



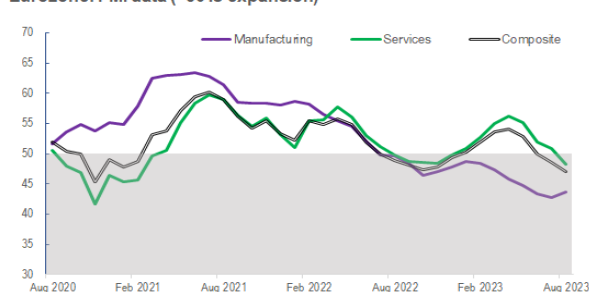
Source: Bloomberg, Goldman Sachs Global Investment Research

## Euro Area

**Sovereign yields were sharply lower and the euro depreciated after flash PMI data disappointed, with the composite measure falling to the weakest level since November 2020.** Bund yields declined (10y -11 bps to 2.53%; 2y -9 bps to 2.98%), while Southern spreads were little changed. The euro depreciated against the dollar (-0.4% to 1.08/\$). **European equities were mostly trading higher (Stoxx 600 Europe index +0.3%),** with the majority of the sectors trading in the green, although some early morning gains were retraced later in the session.

**The euro area composite flash PMI fell sharply to 47.0 in August (versus expected 48.5 from 48.6).** The services sector drove the decline, falling into contractionary territory (48.3 versus expected 50.5 from 50.9), while the manufacturing sector surprised on the upside (increasing to 43.7 against expectations to remain unchanged at 42.7). Composite PMI data from both Germany and France disappointed, with the largest decline seen in Germany where services PMI unexpectedly fell into contractionary territory (48.3 versus expected 50.5 from 50.9).

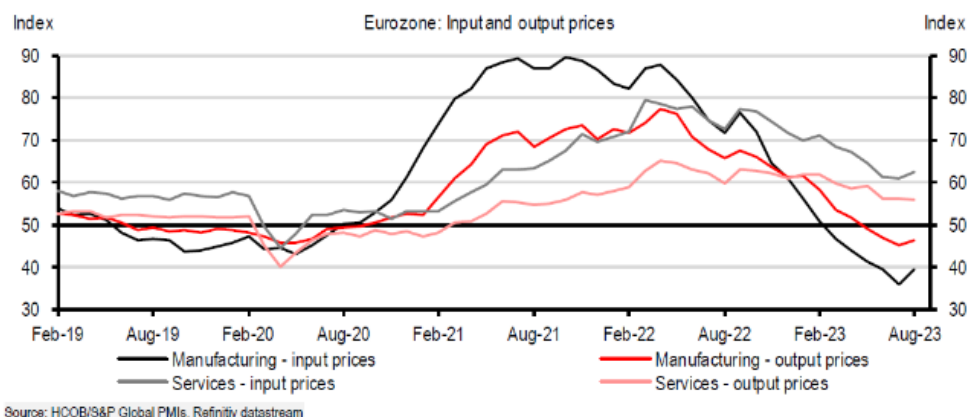
**Eurozone: PMI data (>50 is expansion)**



Source: Bloomberg and IMF staff

**Markets scaled back ECB hiking expectations, but some analysts continue to expect the ECB to hike rates in September amid stubborn inflationary pressures.** Today's PMI data release highlighted that while inflationary pressures were at lower levels than in the past two years, headline rates of input costs and selling price inflation increased in August partly due to wage pressures. HSBC analysts argue that today's PMI report is not absolutely dovish and continue to predict a final 25 bps hike by the ECB at the policy meeting in September, and also expect no rate cuts in 2024. JPMorgan analysts, however, argue that a pause in September is now more likely than another hike. Markets have scaled back ECB hiking expectations this morning—and now are pricing in roughly 15 bps of tightening this year compared to roughly 21 bps that were priced in yesterday.

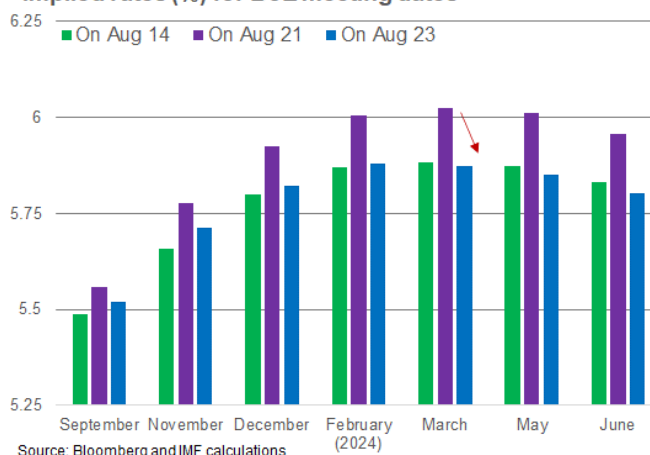
**The input price indices rose for both manufacturing and services**



## United Kingdom

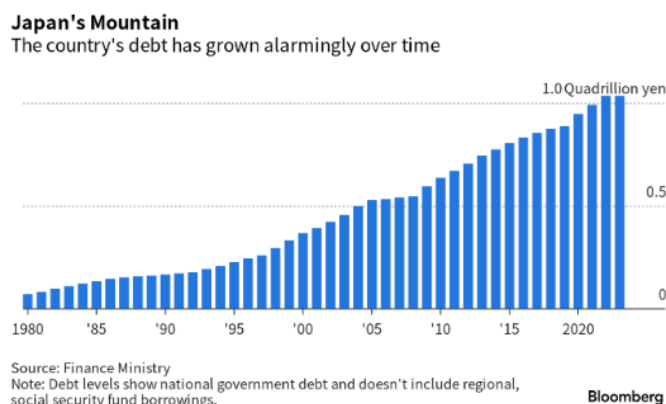
**Gilt yields fell sharply and the pound depreciated as markets scaled back BoE hiking expectations after disappointing UK flash PMI data.** The UK composite flash PMI fell to a 31-month low of 47.9 in August (versus expected 50.4 from 50.8 in July) with both services and manufacturing declining by more than expected. The composite measure is now in contractionary territory for the first time since January. The PMI report also showed that inflationary pressures continued to moderate. Nevertheless, the PMI survey also noted several reports of persistently strong wage pressures. Markets have scaled back BoE hiking expectations and are now pricing in roughly 63 bps of tightening this year, compared to roughly 79 bps priced in yesterday. Against this backdrop the pound weakened against the dollar (-0.8% to 1.26/\$) and gilt yields were sharply lower (10y gilt -13 bps to 4.51%).

**Implied rates (%) for BoE meeting dates**



## Japan

**Prime Minister Kishida plans to increase government spending even as government funding costs are set to rise.** Low approval ratings are putting pressure on the administration, according to press reports. Subsidies that cap gasoline prices and fresh economic measures to help households and businesses deal with inflation will be used. Manufacturing PMI edged up slightly to 49.7 from 49.6, although it is still in contractionary territory. Meanwhile, services PMI improved to 54.3 from 53.8. **Long-end JGB yields increased** (10-year: +1.0 bp; 30-year: +1.4 bps), with the 10-year yield touching 0.67%, after the Bank of Japan (BOJ)'s bond purchase operation results indicated stronger appetite to sell JGBs to the BOJ. Market participants generally expected the BOJ to intervene again if the 10-year JGB yield reaches 0.7%. Japanese yen appreciated (+0.3%). Equities gained (NIKKEI: +0.5%).



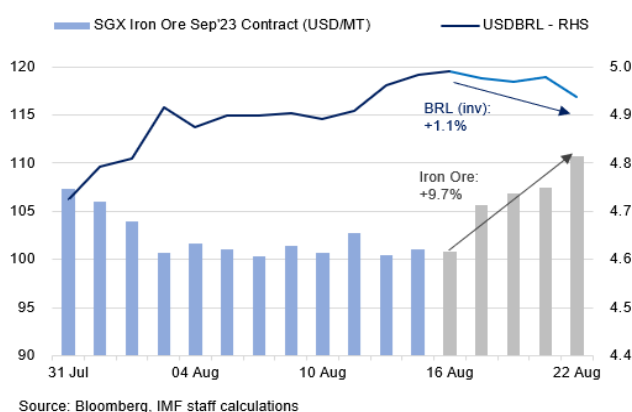
## Emerging Markets

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**Equity markets in EMEA were mixed while currencies were mostly trading weaker against the dollar.** Romania was the strongest performer. **Stocks in China took another beating, but Indian markets did better.** Currencies held steady. **LATAM assets rebounded amidst signs of stabilization in China markets.** Regional equities rose, currencies appreciated while bond yields traded broadly lower.

## Brazil

**A rally in iron ore prices supported Brazilian assets.** Brazil's Bovespa index and the Brazilian outperformed against its regional peers, after iron ore prices rose for a fourth consecutive day. Iron ore has rallied nearly 10% since August 16, amidst speculation that the government had approved 12 province/regions to issue special financing bonds, which may help improve funding for construction and infrastructure projects that could boost demand for iron ore.

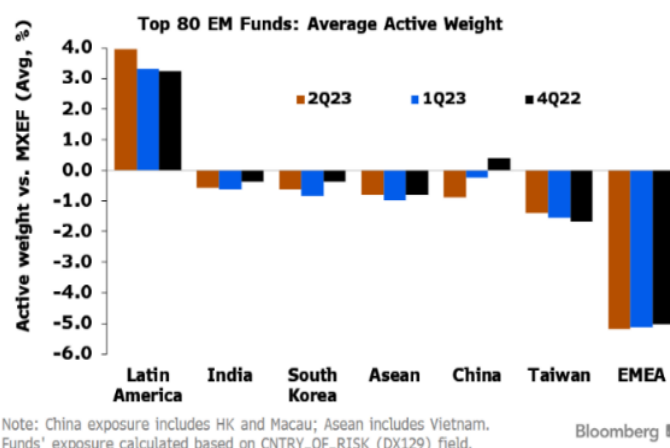


## China

### Foreign investors have been selling Chinese equities at the fastest pace since 2015.

The net outflows from China's onshore equity markets amounted to \$10.8 bn during August 4–23, which is also the longest selling streaking since November 2015. The selloff was concentrated on China's blue-chip stocks. Foreign investors have been unnerved by the fear that a prolonged property sector downturn will raise the risk of broader financial stress. **RMB appreciated slightly to 7.29 yuan per dollar today.** Reportedly, state-owned banks sold dollars

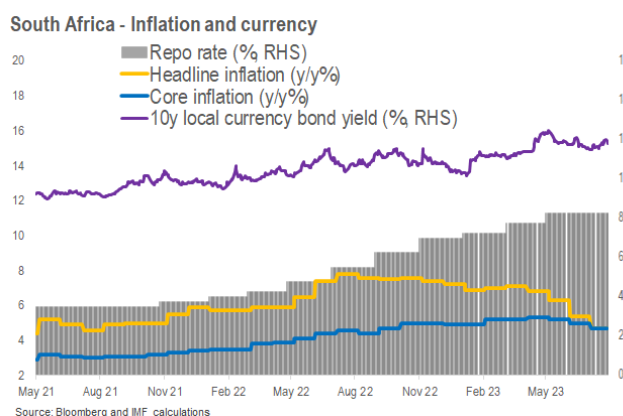
in the onshore market around noon to support the currency. The People's Bank of China continued setting the daily RMB fixing at 7.199 yuan per dollar, stronger than expectations by 955 pips. The daily RMB fixing, which sets a limit to how much the currency can move within a given day, has been around 7.2 yuan per dollar for about a week already.



## South Africa

### Domestic bond yields eased after July's inflation print surprised on the downside.



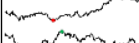


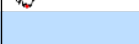
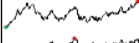

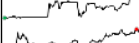














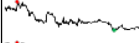


Data released this morning showed headline and core inflation easing more than expected in July (headline to 4.7% y/y versus expected 4.9% from 5.4%; and core to 4.7% versus expected 4.9% from 5.0%). The central bank, with an inflation target rate of 3–6%, unexpectedly left the repurchase rate at 8.25% at the latest policy meeting, while consensus had expected a 25 bps hike. Markets have pared rate-hike bets and some analysts expect the central bank to leave interest rates unchanged for the remainder of the year. JPMorgan analysts also now expect the first rate cut in March (previously May). Domestic bond yields fell (10y -15 bps to 11.76%), while the South African rand continued to appreciate (+0.7% to 18.74/\$).



*This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Deputy Division Chief), Nassira Abbas (Deputy Division Chief), and Caio Ferreira (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (New York Representative), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Benjamin Mosk (Senior Financial Sector Expert), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (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), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Mustafa Oguz Caylan (Research Officer), Silvia Ramirez (Senior Financial Sector Expert), Patrick Schneider (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

8/23/23 8:02 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4388	-0.3	0	-3	6	14
Europe		4254	-0.2	-1	-3	16	12
Japan		32010	0.5	1	-2	13	23
China		3697	-1.6	-3	-3	-9	-5
Asia Ex Japan		64	-0.2	-2	-5	-4	-1
Emerging Markets		38	-0.2	-1	-5	-3	1
<b>Interest Rates</b>			basis points				
US 10y Yield		4.27	-5.4	2	44	122	40
Germany 10y Yield		2.55	-9.7	-10	8	123	-2
Japan 10y Yield		0.67	0.8	4	22	45	25
UK 10y Yield		4.52	-12.1	-12	24	195	85
<b>Credit Spreads</b>			basis points				
US Investment Grade		148	-0.3	0	2	-14	-11
US High Yield		425	3.3	9	10	-61	-55
<b>Exchange Rates</b>			%				
USD/Majors		103.87	0.3	0	3	-4	0
EUR/USD		1.08	-0.3	-1	-2	8	1
USD/JPY		145.4	-0.3	-1	3	6	11
EM/USD		47.9	0.0	1	-2	-4	-4
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		82.9	-1.3	-1	3	-8	0
Industrials Metals (index)		142	0.6	3	-1	-10	-14
Agriculture (index)		66	0.4	0	-6	-4	-4
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		16.9	0.0	0.2	3.3	-7.2	-4.7
US 10y Swaption Volatility		121.7	-9.5	4.2	20.4	-10.3	-4.0
Global FX Volatility		8.4	0.0	-0.2	0.1	-2.9	-2.3
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		133	3.0	3	0	-129	-73
Italy		166	-0.1	-4	5	-67	-49
Portugal		71	-0.2	-3	0	-38	-31
Spain		103	-0.6	-2	2	-16	-7

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

## Emerging Market Financial Indicators

Last updated: 8/23/2023 8:03 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	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		
	vs. USD		(+) = EM appreciation						% p.a.							
China		7.29	0.0	0.1	-1	-6	-5		2.6	-0.5	-1	-11	-14	-48		
Indonesia		15295	0.1	-0.1	-2	-3	2		6.6	-6.0	17	36	-52	-33		
India		83	0.3	0.3	-1	-3	0		7.7	-7.0	8	30	16.3	20		
Philippines		57	-0.6	-0.4	-3	-1	-2		6.1	0.0	0	8	76	8		
Thailand		35	-0.3	0.9	-2	3	-1		3.0	0.5	16	27	44	38		
Malaysia		4.66	-0.2	-0.6	-2	-4	-5		3.9	-0.8	-1	2	-13	-19		
Argentina		350	0.0	0.0	-23	-61	-49		102.7	-517.3	375	1251	2753	1452		
Brazil		4.93	0.2	1.3	-4	4	7		11.4	-0.6	8	45	-53	-117		
Chile		869	0.1	-1.4	-5	8	-2		5.5	-0.2	9	40	-135	13		
Colombia		4110	0.5	-0.6	-4	7	18		8.4	0.0	27	69	-100	-140		
Mexico		16.88	0.2	1.5	0	18	16		9.0	0.0	25	80	42	26		
Peru		3.7	0.1	-0.2	-4	4	2		7.2	0.6	37	33	-79	-80		
Uruguay		38	0.3	0.3	0	7	6		9.2	-0.8	11	-4	-158	-149		
Hungary		354	-0.5	0.3	-4	17	5		7.4	-12.0	9	54	-215	-225		
Poland		4.14	-0.4	-0.8	-3	16	6		5.0	-8.5	12	37	-106	-118		
Romania		4.6	-0.4	-0.7	-3	7	1		6.7	3.4	12	38	-98	-96		
Russia		94.6	-0.4	1.1	-4	-37	-22									
South Africa		18.7	0.6	2.6	-5	-9	-9		9.6	-12.0	4	30	72	40		
Turkey		27.22	-0.1	-0.5	-1	-33	-31		21.3	-6.0	-64	231	808	1146		
US (DXY; 5y UST)		104	0.3	0.4	3	-4	0		4.43	-5.9	3	34	126	42		

	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	7 Days	30 Days	12 M	YTD		
									basis points						
China		3697	-1.6	-3	-3	-9	-5		180	-1	-4	-31	3		
Indonesia		6921	0.1	0	0	-4	1		130	5	-3	-54	-10		
India		65433	0.3	0	-1	11	8		137	1	6	-21	-5		
Philippines		6180	-0.5	-2	-7	-7	-6		106	5	-2	-25	9		
Thailand		1549	0.2	2	2	-5	-7		0	0	0	0	0		
Malaysia		1440	-0.8	-2	2	-3	-4		96	3	6	-17	-4		
Argentina		593947	1.7	20	26	334	194		2051	-167	30	-397	-154		
Brazil		116156	1.5	0	-3	3	6		234	0	-2	-88	-40		
Chile		6159	0.6	-1	-2	15	17		126	7	6	-59	-6		
Colombia		1116	-1.5	-1	-5	-13	-13		336	12	2	-78	-36		
Mexico		53128	0.0	-1	-1	11	10		374	8	0	-43	-7		
Peru		22942	0.4	-1	0	17	8		157	5	-3	-35	-23		
Hungary		56932	-0.3	3	7	32	30		198	3	1	-16	-24		
Poland		67660	-0.7	-2	-5	26	18		116	2	-4	111	43		
Romania		13047	0.9	0	-1	6	12		211	8	2	-59	-44		
South Africa		73734	0.6	-2	-4	6	1		397	10	22	-66	30		
Turkey		7808	0.5	2	17	150	42		405	-2	-21	-282	-35		
Ukraine		507	0.0	0	0	-2	-2		3477	13	-151	148	-602		
EM total		38	-0.8	-1	-5	-3	1		381	0	9	-51	5		

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

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