



- **Markets rally as Friday speech lifts September rate cut odd; still some uncertainty** ([link](#))
- **Credit markets diverge: IG turns electronic and HY trades in blocks** ([link](#))
- **Continued equity rally in China raises bubble concerns** ([link](#))
- **Japanese yen weakens despite rate cut signals from Fed** ([link](#))
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Markets consolidate after Powell's dovish surprise and Friday ebullience.

Early morning trading saw some consolidation following last Friday's sharp risk-on rally, which lifted the S&P 500 by roughly 1.5% and pushed US Treasury yields down as much as 10 bps after Powell's Jackson Hole speech was viewed as unexpectedly dovish. Asian bourses outperformed overnight, extending the Friday rally, with Chinese equities leading the pack. The rally faded into the European session, where equity bourses are slightly lower, while S&P 500 futures point to a 0.3% decline at the open. Meanwhile, sovereign yields in advanced economies are higher, with modestly steeper curves in both the US and euro area, and the dollar is broadly stronger. Some contacts noted thinner market liquidity today, largely due to the UK bank holiday. The remainder of the week will test market confidence in the monetary policy outlook—with inflation data due from the US, euro area, and Japan—and in the durability of ongoing themes like AI semiconductors, as Nvidia reports Wednesday and following news of a 10% US stake in Intel. Fed governance will also remain in focus, amid reports that President Trump would dismiss Fed Governor Cook if she does not resign, as well as with tariffs, as more investigations and announcements by the US loom.

Key Global Financial Indicators

Last updated: 8/25/25 8:18 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		6467	1.5	0	1	15	10
Eurostoxx 50		5464	-0.4	1	2	11	12
Nikkei 225		42808	0.4	-2	3	12	7
MSCI EM		51	2.0	1	2	15	21
Yields and Spreads			bps				
US 10y Yield		4.28	2.7	-5	-11	48	-29
Germany 10y Yield		2.77	5.2	1	6	55	41
EMBIG Sovereign Spread		293	2	7	-16	-103	-32
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		45.8	-0.2	0	0	-1	7
Dollar index, (+) = \$ appreciation		97.9	0.2	0	0	-3	-10
Brent Crude Oil (\$/barrel)		68.2	0.6	2	0	-14	-9
VIX Index (% change in pp)		15.1	0.9	0	0	-1	-2

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

In the US, the week will bring a slate of data including housing, consumer confidence, consumption, and inflation prints, with particular attention paid by market participants to core PCE (consensus: 0.3% m/m), the Fed's preferred inflation gauge, which will be released on Friday. Regional Fed manufacturing surveys are expected to show activity stabilizing, while Nvidia is scheduled to report earnings on Wednesday. In Europe, the August flash inflation estimate, and the minutes of the ECB's July meeting will be released, while Japan will publish its CPI data. On monetary policy, the Philippines is expected to deliver a 25bps rate cut, while South Korea and Hungary are expected to hold.

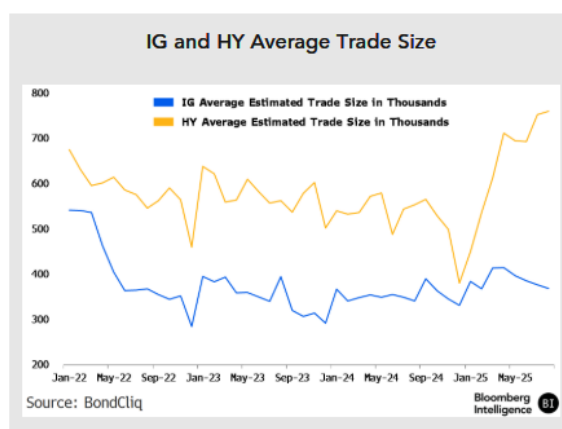
Mature Markets

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United States

Markets cheered Powell's Jackson Hole speech as a decisive tilt toward easing, but the remarks fell short of making a September rate cut a certainty. Powell emphasized a "shifting balance of risks" and rising downside risks to employment, yet he also underscored persistent tariff-driven inflation pressures and described the labor market as still "in balance" without "a large margin of slack". Viewed in the context of the Fed's revised monetary policy framework — which dropped flexible average inflation targeting and put greater emphasis on price stability — those same remarks lean more hawkish. That contrasts with the 2024 speech, which explicitly downplayed inflation risks and elevated employment concerns, paving the way for an imminent cut. Market reaction reflected this nuance: two-year Treasury yields dropped 10bps while the 2–10 and 2–30 spreads steepened 3 and 6bps respectively, and inflation swaps rose across the curve. Markets now price around an 80% chance of a September cut, up from 70% Thursday, but the speech itself keeps the outcome data-dependent on the August payroll and CPI outturns.

The corporate bond market is exhibiting a divergent trading structure, as IG turns increasingly electronic while HY relies on large block trades. In IG (daily volume \$36bn), algo pricing and auto-execution tools have driven a 133% surge in sub-\$1 million tickets since 2022, fragmenting execution even as volumes hit near-record highs. High yield (daily volume \$10bn) shows the opposite pattern: average trade sizes climbed to a record \$761k in mid-August, with more than 80% of activity now in trades above the \$1 million reporting threshold, as investors rely on portfolio trades to shift baskets of illiquid bonds. The divergence underscores how liquidity is being reshaped, with implications for market depth and transparency in stress periods.



Europe

European equities were trading lower as some of the euphoria following Friday's risk-on rally faded heading into the European session. The Stoxx 600 index was trading slightly lower on the day, after approaching a near all-time high on Friday, with declines led by the utilities (-0.9%) and industrials sectors

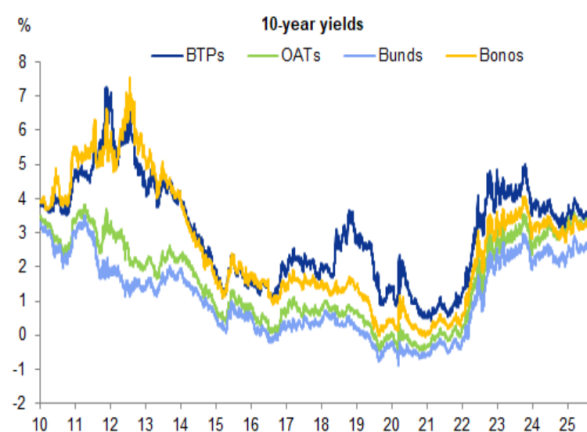
(-0.6%). Regional bourses were also trading lower on the day, including the DAX, though German business outlook improved, with August's Ifo expectations reading rising to its highest level since 2022. Meanwhile, European government bond yields were higher, led by the longer end of the curve, with the 10Y German bund yield higher by around 4 bps. Intra-EMU spreads were also wider, while the euro was weaker (-0.3%) against the dollar to trade at 1.1687.

Euro area

The European “country-specific risk premium” has collapsed, according to some analysts. The country-specific risk premium, the gap between the lowest and highest government yields in the euro area, is the narrowest since 2010, according to Goldman Sachs analysts. This trend has also been evident in the non-financial corporate bond universe; the yield spread between the Italian and French BBB corporate bonds has narrowed nearly to zero, in line with the sovereign risk premium, potentially reflecting scarcity of high-quality assets over the last decade. From the issuer's standpoint, this means a reduction in borrowing costs, but from the bond investor's perspective, if the current regime persists, it means the loss of a source of dispersion and thus alpha from credit selection, Goldman Sachs analysts noted.

Exhibit 7: The gap between the tightest and widest government yields in Europe is the narrowest since 2010

Yields on 10-year sovereign bonds for the four major Eurozone economies



Source: Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

Exhibit 8: The risk premium between Italian and French non-financials has shrunk alongside the sovereign risk premium...

Yield differential between Italian and French BBB 5-10 year non-financial corporate bonds



Source: iBoxx, Goldman Sachs Global Investment Research

Japan

The yen underperformed G10 peers, depreciating -0.2% to 147.30 per dollar despite Fed easing and BOJ rate hike signals. Markets perceived that BOJ governor Ueda maintained a hawkish tone at Jackson Hole, citing persistent wage pressures, which contrasted with their dovish perception of Powell's speech. This reinforced expectations for a BOJ rate hike by year-end, with overnight index swaps pricing in a 73% probability—up from 60% earlier this month. This dual narrative—Fed easing and BOJ tightening—could provide near-term support for the yen and pose risks to elevated short yen positions held by leveraged funds. However, Goldman Sachs notes that the yen's sensitivity to rate differentials has declined significantly over the past year. The end of ultra-easy BOJ policy and the phase-out of yield curve control have reduced the yen's beta to forward rates across the curve, especially at the long end. This shift could be attributed to heightened market volatility, fiscal and trade policy risks, and a broader distribution of macro shocks across asset classes. Today, the stock market gained (Nikkei 225: +0.41%), though strategists cautioned that the index is typically capped near the 43,000 mark and beginning to look overvalued, prompting investors to consider locking in profits.



Emerging Markets

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EMEA markets were mostly higher following Chair Powell's dovish Jackson Hole speech. In Asia EM, equities broadly gained (EM Asia: +2.4%), supported by improved risk sentiment, while currencies mostly appreciated against the dollar, led by the Malaysian ringgit (+0.6%) and Indonesian rupiah (+0.6%). Economists caution that the rally in Asian markets may be short-lived unless the Fed commits to a deeper easing cycle. In CEE, equity bourses were higher, except for Hungary, which fell by 1%; currencies were broadly weaker against the dollar. In LATAM, regional currencies broadly appreciated against the dollar, with the Chilean peso outperforming (+1.3%), ending the day higher (+1.3%), local bond yields traded lower, and the broader MSCI Latin America index gaining (+2.7%). On the monetary policy front, Paraguay's central bank left its policy rate unchanged at 6%, in line with market expectations.

EM Fund Flows

EM funds posted two consecutive weeks of net inflows, driven primarily by equities. In the past week, EM bond funds posted its sixth consecutive week of inflows (+\$1.8bn, prior week +\$1.1bn) while EM equity fund reverted to inflows (+\$2.0bn, prior week -\$0.8bn). Within EM bonds, inflows were concentrated in hard currency funds (+\$1.3bn, from +\$0.9bn), although local currency funds inflows also strengthened (+\$0.5bn, from +\$0.2bn). For EM equity funds, ETFs accounted for the bulk of inflows (+\$2.9bn, from +\$0.7bn), offsetting continued outflows from non-ETFs (-\$0.9bn, from -\$1.5bn). For regional equity funds, inflows were broad based, led by Asia ex-Japan (+\$1.6bn), EMEA (+\$0.2bn) and LATAM (+\$0.01bn). YTD, cumulative inflows stand at +\$5.4bn for EM bonds and -\$0.1bn for EM equities, putting the former on track to break a three-year streak of outflows.

Weekly cross-asset flows

USD billion

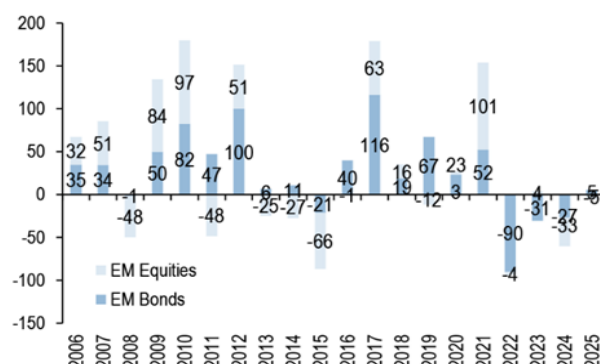
Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		3.8	-0.1
EM Bonds		1.8	5.4
Hard Ccy		1.3	-1.0
Local Ccy ^a		0.5	6.3
o.w. EM ex-China		0.5	4.5
o.w. China		0.0	-1.7
EM Equities		2.0	-5.5
US HG		8.6	119.2
US HY		-0.6	19.2
Global Equities		-2.4	0.7
EM Bond and Equity ETFs		3.2	38.4
EM Bond ETFs		0.3	-0.4
EM Equity ETFs		2.9	38.8
Non-resident EM flows*		-3.1	-12.1

*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.

EM bond and equity fund flows

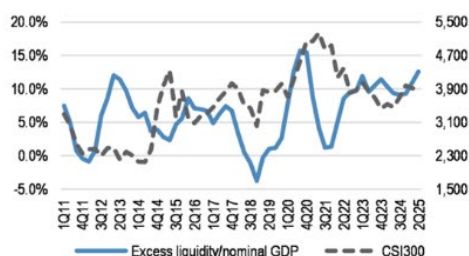
USD billion



China

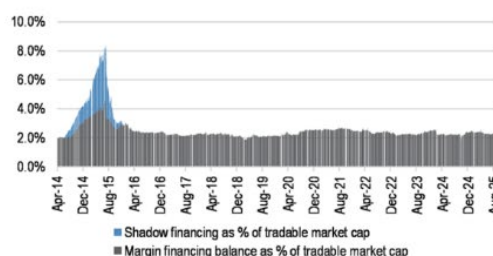
Equity markets surged (CSI 300: +2.1% today, and +13.6% ytd) despite weak fundamentals, raising concerns of a potential bubble. The rally has been largely driven by cash-rich investors reallocating into equities amid limited alternatives. JP Morgan analysts estimated an additional RMB 14tn (\$1.97bn) fund flows into equities over the next three years—equivalent to 16% of the tradable market cap of Aug 21—supported by regulatory guidance for SOE insurers and mutual funds to raise equity allocations, households shifting deposits, and banks' WMPs increasing equity exposure. Liquidity has expanded notably, with excess liquidity defined by JPM rising from 9.1% of nominal GDP in Q3 2024 to 12.6% in Q2 2025. Margin financing has climbed to RMB 2.1tn (\$292bn), nearing the 2015 peak, though still moderate at 2.5% of tradable market cap versus 5.1% or 8% (including shadow financing) at the 2015 peak. While the rally may reflect expectations of future macro improvement, analysts warn of “irrational exuberance” amid a disconnect between market optimism and weak fundamentals—corporate pricing power is under pressure from deflationary forces and subdued domestic demand. Today, the yuan appreciated 0.4% against the dollar after the RMB fixing was set at 7.1161 per dollar, the strongest since November.

Figure 1: Excess liquidity as % of nominal GDP



Source: CEIC, Wind, PBOC, NBS, J.P. Morgan estimates. Note: Excess liquidity is calculated by “total new TSF (incl. under-reported shadow credit) – interest payments – net increase in nominal GDP”. We used rolling-4Q for all TSF, interest payments, and nominal GDP data.

Figure 2: Margin financing balance accounted for ~2.3% of tradable market cap in Aug 2025, which is compared to over 4% in 2015 or over 8% if we include shadow financing

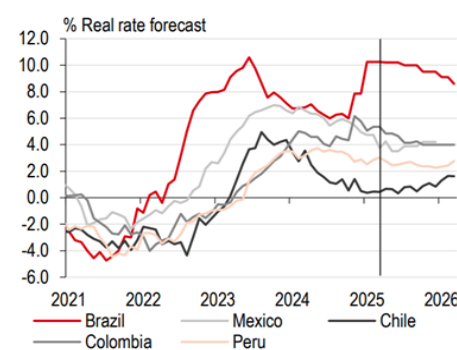


Source: CEIC.

Colombia

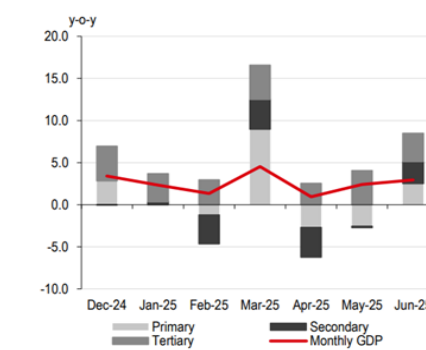
The Colombian peso (COP) remains supported despite recent fiscal concerns. According to HSBC analysts, the currency has effectively “grown a tolerance” for recent fiscal developments, supported by high nominal and real yields (*left chart*) and alongside positive economic growth (*right chart*). Inflation expectations remain above the central bank’s 3% target, which may keep policymakers on the side of caution. Consequently, the analysts note that these developments may influence the central bank to slow the pace of monetary easing, limiting cuts to -25 bps, if at all. In this context, the high-interest rate continues to underpin investor appetite for the COP. Nevertheless, the analysts cautioned that a further deterioration of Colombia’s fiscal position poses a risk to the currency’s outlook. Even under a “fiscally stringent” environment, reining in the deficit could prove challenging without weighing on growth.

Real rates are among the highest in the region



Source: Bloomberg, HSBC

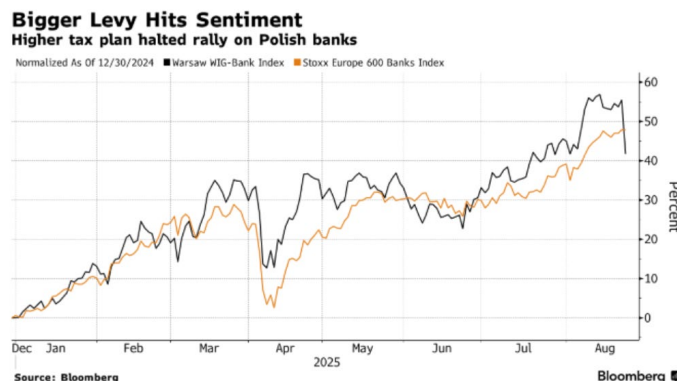
Growth remains positive despite some sector weakness



Source: Finance Ministry, HSBC

Poland

Polish bank stocks underperform following tax proposal from the Finance Ministry. Poland's banking sector fell 10% Friday, underperforming the benchmark WIG Index (-3.9%) and the Stoxx 600 Bank Index (-0.1%). The proposal includes an increase to the corporate tax rate for banks from the current 19% to 30% in 2026, then declining to 26% in 2027 and 23% in 2028. Revenue estimates from the Finance Ministry forecast the tax hike will raise about PLN 6.5 bn in 2026, and PLN 20bn over the next 10 years. Additionally, plans also include gradually reducing a special tax on bank assets by 10% in 2027 and 20% in 2028. Investors will be monitoring progress on the proposal, which will need to be approved by the cabinet, parliament, and the president.



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Global Financial Indicators

8/25/25 8:18 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		6,457	1.5	0.1	1.1	14.6	10
Europe		5,465	-0.4	0.6	2.1	11.3	12
Japan		42,808	0.4	-2.1	3.3	12.3	7
China		4,469	2.1	5.4	8.3	34.4	14
Asia Ex Japan		87	1.9	1.4	2.0	18.4	21
Emerging Markets		51	2.0	1.4	2.3	15.5	21
Interest Rates			basis points				
US 10y Yield		4.3	3	-5	-10	48	-29
Germany 10y Yield		2.8	5	1	6	55	41
Japan 10y Yield		1.6	0	5	2	72	52
UK 10y Yield		4.7	-4	0	12	73	13
Credit Spreads			basis points				
US Investment Grade		117	-1	0	-3	-16	-3
US High Yield		334	-4	-1	7	-36	5
Exchange Rates			%				
USD/Majors		97.9	0.2	-0.3	0.3	-2.8	-10
EUR/USD		1.17	-0.2	0.3	-0.4	4.8	13
USD/JPY		147.4	0.3	-0.4	-0.2	2.0	-6
EM/USD		45.8	-0.2	0.1	-0.1	-0.8	7
Commodities			%				
Brent Crude Oil (\$/barrel)		68.1	0.6	2.3	0.7	-8.7	-6
Industrials Metals (index)		141.9	0.3	0.8	-10.0	-3.5	1
Agriculture (index)		56.2	0.4	2.9	2.8	6.0	-1
Gold (\$/ounce)		3368.6	-0.1	1.1	0.9	33.8	28
Bitcoin (\$/coin)		111184.0	-1.4	-2.8	-5.1	73.1	19
Implied Volatility			%				
VIX Index (% change in pp)		15.1	0.8	0.1	0.1	-0.8	-2.3
Global FX Volatility		7.7	0.1	0.1	-0.3	-0.7	-1.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		67	2	2	-1	-37	-19
Italy		82	1	2	-2	-52	-34
France		71	1	2	4	0	-12
Spain		59	1	2	-1	-21	-11

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 8/25/2025 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		7.16	0.2	0.4	0.2	-0.5	2.0		1.9	1	4	11	-24	16
Indonesia		16253	0.6	-0.6	0.4	-5.1	-0.9		6.3	2	-4	-14	-36	-71
India		88	-0.1	-0.3	-1.2	-4.2	-2.3		6.9	0	8	3	-9	-49
Philippines		57	0.0	0.2	0.2	-1.1	1.6		4.8	0	1	-6	-39	-11
Thailand		32	0.6	0.1	-0.2	4.7	5.1		1.4	-2	-3	-18	-118	-90
Malaysia		4.21	0.5	0.4	0.4	3.4	6.3		3.4	-1	0	-2	-40	-44
Argentina		1322	-0.6	-1.8	-5.1	-28.5	-22.0		46.8	569	927	1005	697	1764
Brazil		5.43	-0.1	0.1	2.4	1.2	13.7		13.9	-15	17	-15	214	-203
Chile		959	1.3	0.8	-0.9	-4.1	3.8		5.4	-1	0	-2	-11	-28
Colombia		4011	0.5	0.1	1.6	1.3	9.8		11.6	-5	-6	7	142	-19
Mexico		18.64	-0.3	0.8	-0.5	4.1	11.7		9.0	-13	-11	-36	-86	-138
Peru		3.5	0.6	1.1	1.1	6.7	6.3		6.2	-1	-1	-26	-29	-38
Uruguay		40	0.2	0.3	0.1	1.0	10.0		7.9	3	-7	-62	-166	-178
Hungary		340	-0.4	-0.4	-0.6	4.0	16.9		6.7	-1	4	6	61	27
Poland		3.64	-0.1	0.0	-0.8	5.3	13.4		4.8	-3	2	-4	-25	-77
Romania		4.3	-0.2	0.3	-0.1	3.2	11.2		7.4	0	0	17	92	10
Russia		81.2	-0.8	-1.0	-2.1	13.3	39.7							
South Africa		17.6	-0.6	0.4	1.2	1.0	7.3		9.9	-5	-2	-29	-72	-55
Türkiye		41.00	-0.1	-0.3	-1.1	-17.1	-13.8		31.7	-4	-9	3	278	198
US (DXY; 5y UST)		98	0.2	-0.3	0.3	-2.8	-9.8		3.79	3	-6	-17	14	-60

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M		
								basis points						
China		4,469	2.1	5.4	8.3	34.4	13.6		109	0	2	-42	13	
Indonesia		7,927	0.9	0.4	5.1	4.2	12.0		84	7	-7	-19	-7	
India		81,636	0.4	0.4	0.2	-0.1	4.5		89	2	-7	-22	3	
Philippines		6,282	0.0	-0.2	-2.1	-9.8	-3.8		72	8	-5	-18	-7	
Thailand		1,263	0.7	1.6	3.7	-7.5	-9.8							
Malaysia		1,602	0.3	1.1	4.5	-2.2	-2.4		63	2	-3	-29	-7	
Argentina		2,106,200	0.1	-3.8	-4.1	31.1	-16.9		776	58	-7	-788	139	
Brazil		137,968	2.6	1.2	3.3	1.7	14.7		204	10	-7	-20	-43	
Chile		8,854	1.5	0.3	7.7	37.0	32.0		104	6	-5	-19	-9	
Colombia		1,858	0.3	0.1	8.7	39.6	34.7		285	3	-26	-27	-41	
Mexico		59,225	1.0	1.6	3.3	10.7	19.6		240	5	-28	-80	-72	
Peru		34,289	0.8	-0.4	2.7	20.6	18.4		104	4	-13	-40	-37	
Hungary		104,462	-1.0	-0.7	3.0	43.2	31.7		138	7	-15	-19	-17	
Poland		108,553	0.8	-1.2	0.0	29.0	36.4		97	6	-5	-11	-15	
Romania		20,783	0.5	0.2	4.4	12.8	24.3		209	8	-6	9	-26	
South Africa		102,894	0.2	1.7	4.0	22.0	22.4		287	9	-8	-11	-6	
Türkiye		11,485	1.0	5.1	7.9	18.8	16.8		274	10	-20	-22	15	
EM total		51	-0.1	1.4	2.3	15.5	21.1		345	10	-20	-64	-19	

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

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