



- Fresh challenges to central bank independence dominate morning headlines ([link](#))
- European stocks drop, yields rise amid increasing political risks in France ([link](#))
- The Japan MOF seeks record debt servicing budget amid rising yields ([link](#))
- Tight valuations could constrain inflows into hard currency EM debt ([link](#))
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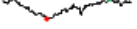



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## Risk-off mood percolates amid Fed and French political headlines

Ahead of the opening of the US session, headlines this morning were dominated by news last night that President Trump had moved to dismiss Fed Governor Cook. While the process for dismissal is uncertain, including whether the President has the authority to fire a sitting Fed governor under the circumstances, concerns around central bank independence led to a steeper US Treasury yield curve overnight, with the 2-year lower by around 2 bps and the longer-end higher by up to 5 bps, as well as a marginally weaker dollar. Nonetheless, market reaction has been relatively muted, with equity futures pointing to nothing more than a tepid opening for broader US markets, with S&P500 futures lower by 0.1%. News yesterday that the French government would call a confidence vote in September, which they are expected to lose, also brought down risk sentiment, which had previously been buoyed by Chair Powell's dovish Jackson Hole speech on Friday, pulling down European equities, with the Stoxx 600 lower by 0.6%. Risk-sentiment in Asia was also dourer, as President Trump made new tariff threats against China, as well as on countries that do not remove digital taxes and associated regulations that hit American tech companies. Japanese equities, as well as in equities in EM Asia, were broadly lower overnight.

Key Global Financial Indicators

Last updated: 8/26/25 7:52 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>							
			%				%
S&P 500		6439	-0.4	0	1	15	9
Eurostoxx 50		5402	-0.8	-1	1	10	10
Nikkei 225		42394	-1.0	-3	2	11	6
MSCI EM		50	-0.6	0	2	16	20
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.28	0.4	-3	-11	46	-29
Germany 10y Yield		2.74	-1.6	-1	2	49	37
EMBIG Sovereign Spread		291	-1	6	-10	-105	-33
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		45.8	0.1	0	0	-1	7
Dollar index, (+) = \$ appreciation		98.2	-0.3	0	1	-3	-10
Brent Crude Oil (\$/barrel)		67.7	-1.6	3	-1	-17	-9
VIX Index (% change in pp)		15.5	0.7	0	1	-1	-2

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

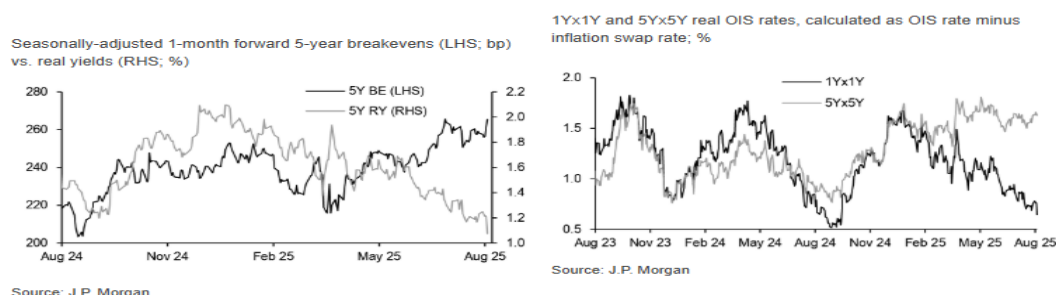
## Mature Markets

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### United States

US markets closed lower yesterday on Monday amid a relatively muted session before news regarding President Trump's attempt to dismiss Fed Governor Cook broke overnight. Post-Jackson Hole optimism eased, and attention has shifted to the pace of policy easing ahead of Friday's PCE report as well as Nvidia's earnings on Wednesday. Treasury yields rose 2–3 bps across the curve, with policy rate expectations little changed from Friday. The US dollar recovered Friday's losses supported by an appreciation against the G10 currencies, though some of that has retraced amid the news around Governor Cook's dismissal attempt this morning.

**The divergence between forward real yields and inflation expectations has widened further in recent weeks.** Downside growth risk and questions over Fed independence amid continued uncertainty over tariff passthrough has kept inflation expectations relatively range-bound, while both forces have weighed on real yields. Market-implied real policy rates one year forward are already back to the levels reached last September, when the Fed delivered a 50-bps cut against a backdrop of rising unemployment and clear disinflation. At the same time, 5y5y real forwards remain about 80 bps higher than last September, partly reflecting a rise in term premia, but broadly consistent with estimates of r-star.



**Fixed-income funds continue to attract strong inflows.** IG funds added \$10.1bn, bringing YTD inflows to \$172bn (4.1% of AUM). All sub-categories posted inflows, with stronger inflows into aggregate and total return funds at the expense of credit-only funds. Muni funds posted a record weekly inflow of \$2.9bn and leverage loan funds received \$645mn. By contrast, HY funds saw first outflow in 17 weeks (\$387mn) while equity funds lost 1bn dominated by mutual funds.

Figure 1: Fund flows by asset classes

Asset Class	Fund Flow (\$mm)	WoW chg	Trend	4-week avg (\$mm)	YTD (\$mm)	YTD (% of AUM)	ETF (\$mm)	Mutual Fund (\$mm)	ETF Trend	MF Trend
HG	+10,115	-1,193		+9,591	+171,963	4.08%	+5,159	+4,956		
HY	-387	-2,333		+1,137	+19,391	4.04%	-821	+434		
Lev Loans	+645	+5		+722	+16,254	9.75%	+455	+190		
Munis	+2,890	+2,806		+1,248	+28,905	2.82%	+2,524	+336		
Money Markets	-2,012	-35,206		+29,924	+327,738	4.06%	-	-		
Equities	-1,040	-23,815		+1,539	+38,978	0.18%	+2,902	-3,942		

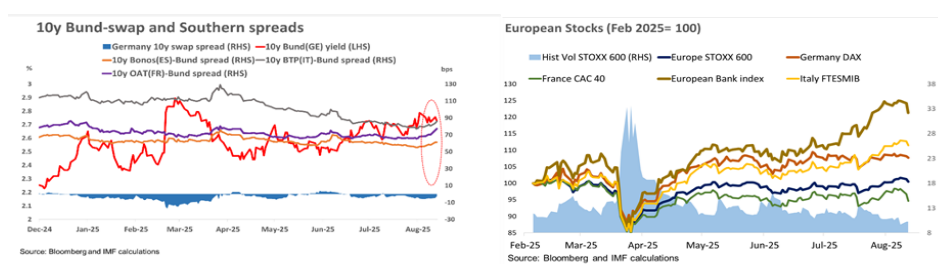
Source: J.P. Morgan, EPFR. \*Note: HG = Corp + Agg + Total Return (bolded lines from Figure 2).

### Europe

**European equities dropped on risk-off sentiment** amid concerns surrounding political developments in France and on US administration's move on Fed Governor Cook. The Stoxx 600 was down by 0.8% this morning with losses widespread, with the banking (-2.2%) and the industrial (-1.8%) sectors underperforming. Regional bourses were all in the red, with France (CAC40 -2%) down the most.

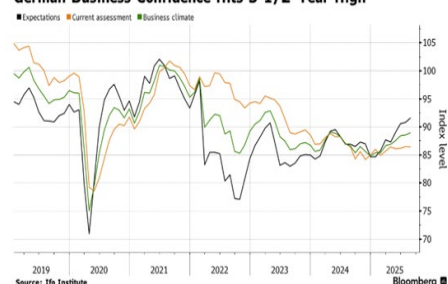
The euro swung in early morning to then fractionally strengthen (+0.1%) against a globally weaker dollar, trading at around \$1.1638/€.

**Prices of European government bonds (EGBs) edged higher;** yields declined, led by the belly of the curve, with the 5y Bund yield lower by -4bps to 2.27%. French OATs continued to underperform after the French government made a surprise call for a parliamentary confidence vote on September 8, in support of its proposed 2026 budget plan, which aims to cut the deficit from to 4.6% in 2026 through €44bn expense savings, and which faces significant political opposition. The Bund-OAT yield spread marginally (+1bp) widened this morning after rising yesterday by +5bps, reaching 77bps, a level last seen in April. Deutsche Bank highlights that widening spreads of OATs over Bunds is particularly significant given the broader calm in EGB spreads over the summer, partly due to the relative Bund cheapening. Deutsche Bank analysts see the possible failure of the French government in the September confidence vote as likely pushing the OAT-Bund spread beyond 85–90bps.



On the data front, **yesterday's August IFO survey in Germany slightly surprised to the upside**, as the business climate index increased to 89pts (vs. est. 88.8pts) from 88.6pts in July, while the expectations index climbed to 91.6pts in August (vs. est. 91.5pts) from prior 90.8pts. Analysts at Bloomberg note that the brighter business climate is in line with positive news from August PMIs released last week, where the German composite index rose to 50.9pts (vs. est. 50.2pts) from 50.6pts in July. Following a contraction of -0.3%q/q in 2Q, Bloomberg expects German GDP to expand by 0.1%q/q in 3Q and by 0.2% in 4Q, taking its annual growth to 0.3% in 2025 and to 1% next year driven by infrastructure and defense spending. UBS expects German GDP to contract by -0.2%q/q in Q3 2025 but sees fiscal spending boosting growth from 2026 onwards, with GDP projected at +1.2% in 2026 and +1.9% in 2027. HSBC also sees improved expectations as a harbinger of rising activity, though short-term momentum remains absent, while ING warns that political debates over austerity could dilute the positive effects of the planned fiscal package.

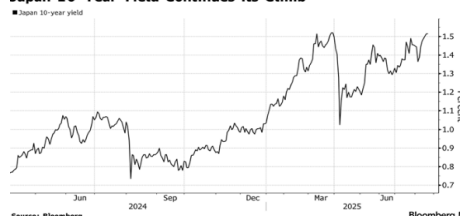
German Business Confidence Hits 3 1/2-Year High



## Japan

**The 10y JGB yield edged higher (+0.7 bps to 1.62%) on firm expectations for an October rate hike.** HSBC strategists turned “mildly bearish from neutral” on JGBs, citing strong domestic inflation and a likely continuation of the BOJ's tightening bias. They raised 10y JGB forecasts to 1.75% from 1.55% for end-2025, and to 1.85% from 1.65% for end-2026. The Ministry of Finance requested a record ¥32.4tn (\$219bn) for debt servicing in the next fiscal year—up ¥4.2tn (~15%) from previous budget—likely reflecting rising bond yields. Today, the yen briefly strengthened past 147 per dollar, which strategists interpreted as reflecting the yen's safe-haven appeal amid concerns over Fed independence. The yen later pared gains, ending slightly stronger (+0.1%)

Japan 10-Year Yield Continues its Climb



after finance minister Kato reiterated the importance of currency markets reflecting economic fundamentals. Equities declined (NIKKEI 225: -1%) as yen strength pressured exporters and Fed uncertainty weighed on sentiment.

## Emerging Markets

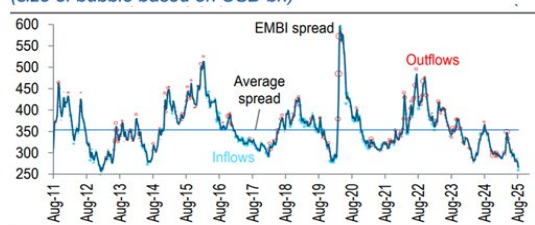
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**EMEA equities were trading mostly lower on a risk-off tone in markets. In CEE, equities in Czechia underperformed on domestic political developments, while CEE currencies were trading relatively rangebound against the euro.** On the policy front, rates are expected to be kept unchanged at 6.50% in Hungary today, given still elevated inflation. Elsewhere, Turkish stocks were trading slightly higher, and the lira and the South African rand were little changed. **EM Asian currencies broadly depreciated against the dollar (EM Asia: -0.2%) amid concerns over potential new US tariffs and export restrictions** on advanced technology and semiconductors, led by the Korean won (-0.6%) and Philippine peso (-0.6%). EM Asian equities mostly declined (EM Asia: -0.8%), with Hong Kong SAR (HSI: -1.2%) and Philippines (PSEi: -2.2%) underperforming. **In LATAM, regional markets were mixed amid a reassessment of post-Jackson Hole optimism and idiosyncratic domestic developments.** Regional currencies largely parred gains, while local bond markets traded largely unchanged, although the Brazilian Real (+0.3%) and Brazilian local bonds (5-year: -10bps, and 10-year: -6bps).

### EM hard currency debt

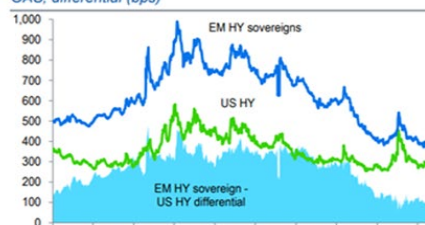
**Tight valuations could constrain inflows into the asset class.** Standard Chartered analysts observed that the July and August risk rallies have compressed benchmark hard currency spreads, with spreads on both EM investment grade (IG) and high yield (HY) indices now trading near their tightest levels since 2013 (*left chart*). EM high-yield bonds, in particular, which have also benefited from recent idiosyncratic domestic developments, are currently trading at a spread of only +81 bps over US HY, significantly below the five-year average of +258 bps. The analysts also cautioned that the anticipated resumption of hard currency issuances in typically heavier months of September and October, combined with continued subdued inflows into the asset class, could trigger spread widening. They also note that these stretched valuations may weigh on further portfolio allocations to EM sovereign credits in the near term.

EMBI Global spread (bps) and flows into EM HC debt funds (size of bubble based on USD bn)



Source: EPFR, Bloomberg, Standard Chartered Research

EM HY sovereigns have outperformed US HY YTD OAS differential (bps)

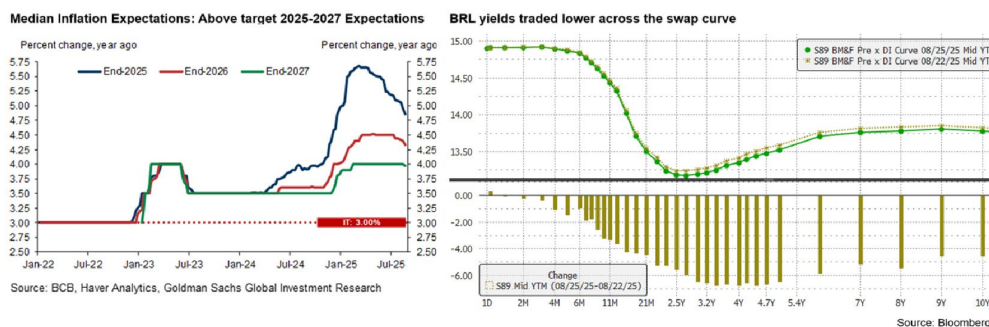


Source: Bloomberg, Standard Chartered Research

### Brazil

**Brazil rates declined amid improved inflation expectations and softer growth outlook.** The central bank's weekly survey of market analysts indicated that the median inflation expectation for year-end 2025 declined to 4.86% (prior week at 4.95%) while expectations for 2025 GDP growth at 2.18% (prior week at 2.21%). Notably, median market analysts expect inflation to decline for both 2026 and 2027, although remaining above target (*left chart*). The survey also revealed expectations for the benchmark Selic rate to remain unchanged at 15% this year. Late last week, Brazil's central bank policy director, Diogo Guillen, also reaffirmed that the central bank is in no hurry to ease and remains focused on bringing inflation back to target. Following the survey release, swap rates declined, with larger declines observed for maturities longer than a year (*right chart*).





## China

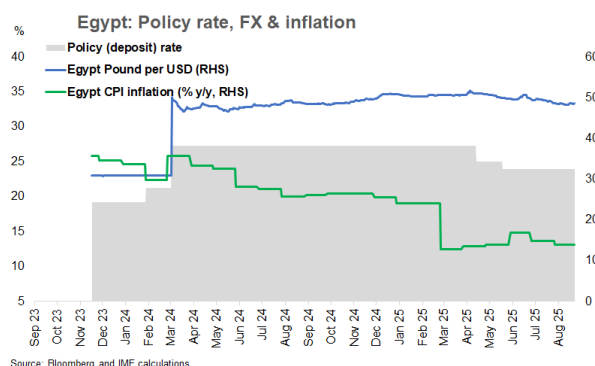
### US-listed China ETFs saw the largest inflows among emerging markets last week (\$223.3mn), driven by improved demand for mainland shares since April, according to Bloomberg.

Investor sentiment was lifted by sector-specific news: environment stocks rose on government guidelines to expand the carbon market to major industries by 2027; game stocks gained after regulators approved 173 titles, the largest batch since 2022; and property shares climbed on eased home-buying rules in Shanghai, fueling speculation of further housing market support. The rally is expected to continue, with sentiment likely supported ahead of the Sept 3 military parade. A scheduled senior trade negotiator's meeting with US deputy-level officials also raised hopes for easing trade tensions. Meanwhile, local media reported that onshore mutual funds have begun imposing buying limits following strong performance this year. Today, the stock market reversed earlier gains and fell (CSI 300: -0.4%), while the yuan depreciated (-0.1%) after a slightly weaker RMB fixing at 7.1188 per dollar (vs. 7.1161 yesterday).



## Egypt

**Markets expect the Central Bank of Egypt to cut rates by 100bp at Thursday's MPC meeting.** Analysts at Goldman Sachs, in line with consensus expectations, expect a 100-bps rate cut at Thursday's Central Bank of Egypt (CBE) meeting, taking the policy rate to 23.0%, citing easing domestic and external pressures. Goldman notes, however, that there is a risk that still elevated inflation may result in policymakers keeping rates on hold and continuing with their cautious policy stance. The analysts note that in their previous post-MPC statement, the CBE highlighted potential medium-term upside risks to inflation, while its Q2 Monetary Policy report upwardly revised headline inflation forecasts for 2025. That said, the analysts also note that the decline in July's headline inflation reading to 13.9% y/y, a large downside surprise, should allow room for some policy easing. This morning the Egyptian pound was trading slightly weaker against the dollar at 48.62/\$.












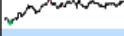













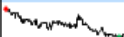



## India

**The stock market declined (SENSEX: -0.7%) amid persistent trade tensions.** Starting Wednesday, an additional 25% US tariff on Indian imports will be imposed, bringing cumulative levies to 50%—above China's 32% and nearly twice those of Asian peers (~15–19%), according to UBS. Citi estimates the tariff could reduce the annual growth by 0.6–0.8 ppts. Recent policy measures—front-loaded rate cuts, personal income tax relief, improved credit availability via regulatory easing, and a sharp goods and services tax rates cut (UBS estimates a \$13bn fiscal impact, or 35bps of GDP)—may partially offset the growth drag. However, concerns over a widening fiscal deficit led to a local debt selloff, pushing the 10y yield up 27bps in one month to 6.63%, with further increases expected.

*This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Timothy Chu (Financial Sector Expert-New York Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Senior Financial Sector Expert), Johannes S. Kramer (Senior Financial Sector Expert), Benjamin Mosk (Senior Financial Sector Expert), Sonal Patel (Senior Financial Sector Expert-London Representative), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are John Caparusso (Senior Financial Sector Expert), Mustafa Oguz Caylan (Research Officer), Sally Chen (IMF Resident Representative in Hong Kong), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Analyst), Deepali Gautam (Senior Research Officer), Zixuan Huang (Economist – EP), Harrison Kraus (Research Analyst), Yiran Li (Senior Research Analyst), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), Lawrence Tang (Senior Economist), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Jing Zhao (Economic Analyst). Javier Chang (Senior Administrative Coordinator), Jeremie Benzaken (Administrative Coordinator), and Srujana Tyler (Administrative Coordinator) are responsible for the word processing and production of this monitor.*

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## Global Financial Indicators

8/26/25 7:52 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		6,439	-0.4	-0.2	0.8	14.6	9
Europe		5,402	-0.8	-1.5	0.9	10.3	10
Japan		42,394	-1.0	-2.6	2.3	10.7	6
China		4,453	-0.4	5.4	7.9	34.7	13
Asia Ex Japan		87	-0.4	0.4	1.6	19.0	20
Emerging Markets		50	-0.6	0.2	1.7	15.8	20
<b>Interest Rates</b>			basis points				
US 10y Yield		4.3	0	-3	-11	46	-29
Germany 10y Yield		2.7	-2	-1	2	49	37
Japan 10y Yield		1.6	1	3	3	74	53
UK 10y Yield		4.7	4	0	10	83	17
<b>Credit Spreads</b>			basis points				
US Investment Grade		118	0	1	-2	-15	-2
US High Yield		333	-5	-2	6	-37	5
<b>Exchange Rates</b>			%				
USD/Majors		98.2	-0.3	-0.1	0.5	-2.6	-10
EUR/USD		1.17	0.3	0.1	0.6	4.5	13
USD/JPY		147.4	-0.3	-0.2	-0.7	2.0	-6
EM/USD		45.8	0.1	0.3	-0.1	-0.5	7
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		67.7	-1.6	2.9	0.1	-10.8	-6
Industrials Metals (index)		141.0	-0.6	1.0	-10.6	-4.4	0
Agriculture (index)		55.6	-0.4	1.9	1.7	4.2	-3
Gold (\$/ounce)		3377.8	0.4	1.9	1.9	34.1	29
Bitcoin (\$/coin)		109661.1	0.1	-2.5	-7.1	72.8	17
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		15.5	0.7	0.0	0.6	-0.6	-1.8
Global FX Volatility		7.6	0.0	0.1	-0.4	-1.0	-1.6
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		69	0	4	1	-35	-16
Italy		85	1	4	1	-50	-31
France		78	2	9	11	7	-5
Spain		61	-1	3	1	-19	-9

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

Data source: Bloomberg.

## Emerging Market Financial Indicators

Last updated: 8/26/2025 7:52 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		7.16	-0.1	0.3	0.3	-0.5	2.0		1.8	-2	-3	4	-25	14
Indonesia		16295	-0.3	-0.3	0.3	-5.3	-1.2		6.3	-2	-6	-17	-37	-73
India		88	-0.1	-0.8	-1.2	-4.3	-2.4		6.9	2	7	5	-7	-47
Philippines		57	-0.2	0.1	0.2	-1.3	1.3		4.7	-2	0	-7	-41	-14
Thailand		32	-0.1	0.1	-0.3	4.6	5.0		1.4	-2	-3	-19	-120	-92
Malaysia		4.22	-0.3	0.1	0.3	3.1	6.0		3.4	0	0	-2	-40	-44
Argentina		1357	-2.6	-4.7	-5.6	-30.0	-24.0		48.0	123	944	1185	883	1887
Brazil		5.41	0.3	0.5	2.8	1.5	14.1		13.9	-2	9	-24	220	-206
Chile		965	-0.6	-0.1	-0.1	-6.2	3.1		5.4	1	0	-2	-8	-27
Colombia		4026	-0.4	-0.3	2.8	0.0	9.4		11.5	-8	-14	-9	138	-27
Mexico		18.64	0.2	0.9	0.7	4.1	11.7		9.0	1	-9	-37	-68	-137
Peru		3.5	-0.4	0.3	0.3	6.0	5.9		6.3	1	1	-24	-27	-36
Uruguay		40	0.2	0.3	0.1	1.0	10.0		7.9	0	-3	-48	-165	-178
Hungary		340	0.4	-0.7	0.8	3.8	16.8		6.7	-1	2	-2	70	26
Poland		3.65	0.4	-0.3	0.6	5.0	13.0		4.8	3	1	-6	-18	-74
Romania		4.3	0.2	0.1	0.9	2.8	10.7		7.4	0	0	15	90	10
Russia		80.9	-0.2	-0.3	1.1	13.8	40.4							
South Africa		17.6	-0.1	0.3	1.4	0.6	6.9		9.9	0	-5	-26	-62	-54
Türkiye		41.03	-0.1	-0.3	-1.2	-17.1	-13.8		31.7	0	-5	-17	286	199
US (DXY; 5y UST)		98	-0.3	-0.1	0.5	-2.6	-9.5		3.77	-1	-5	-19	11	-61

	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		4,453	-0.4	5.4	7.9	34.7	13.2		108	-1	4	-45	12	
Indonesia		7,906	-0.3	0.5	4.8	4.1	11.7		79	2	-8	-28	-12	
India		80,787	-1.0	-1.1	-0.1	-1.2	3.4		86	1	-9	-26	0	
Philippines		6,145	-2.2	-2.7	-4.2	-11.9	-5.9		66	1	-8	-27	-13	
Thailand		1,251	-0.9	1.3	2.8	-8.3	-10.6							
Malaysia		1,582	-1.3	-0.5	3.1	-4.3	-3.7		61	-1	-7	-31	-9	
Argentina		2,021,852	-4.0	-8.0	-8.0	26.9	-20.2		838	124	96	-690	201	
Brazil		138,025	0.0	0.5	3.4	0.8	14.7		203	9	-5	-23	-44	
Chile		8,883	0.3	0.6	8.0	37.9	32.4		102	5	-5	-21	-11	
Colombia		1,850	-0.5	-0.2	8.2	37.7	34.1		286	4	-17	-28	-40	
Mexico		58,492	-1.2	0.3	2.0	10.0	18.1		239	6	-25	-80	-73	
Peru		34,302	0.0	-0.4	2.7	20.8	18.4		103	4	-16	-40	-38	
Hungary		104,941	0.1	-0.5	3.5	42.8	32.3		134	4	-16	-25	-21	
Poland		108,348	-0.2	-2.6	-0.2	29.0	36.2		96	5	-3	-14	-16	
Romania		20,726	-0.4	0.5	4.1	12.3	24.0		206	8	-4	3	-29	
South Africa		102,405	-0.6	1.2	3.5	21.6	21.8		286	9	-6	-15	-7	
Türkiye		11,524	0.4	5.1	8.3	20.5	17.2		271	8	-14	-29	12	
EM total		50	0.2	0.2	1.7	15.8	20.4		347	13	-10	-62	-17	

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

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