



- Market contacts expect the Fed to remain on hold with a dovish tilt ([link](#))
- Consumer short-term inflation expectations fell to the lowest level since April 2021 ([link](#))
- Gilt yields sharply lower after UK wage growth slows more than expected ([link](#))
- The Yen retraced from gains on news that pushed back against imminent lift-off ([link](#))
- Consensus for Brazil's 2023 GDP inches up before central bank meeting tomorrow ([link](#))
- Equity markets in China and Hong Kong SAR continue to diverge from regional peers ([link](#))
- **Special Feature: Corporate Earnings Monitor Q3 2023** (attached)

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Soft Landing Belief Paves Way for Rotation from Magnificent Seven to Laggards

Yesterday, US Equities advanced with the magnificent seven stocks falling behind. The rest of the Nasdaq stocks rallied as investors are neutralizing their underweighted positioning into an uncertain next year. As incoming data increasingly points at a soft-landing scenario becoming the likeliest the equity market ceases to chase prior winners but is instead playing catch up bets on firms whose stock prices so far lagged. In pre-market trading, Treasury yields, and the dollar fell while US stock futures post small moves ahead of today's release of US November inflation data, which the NY Fed's consumer expectation survey yesterday heralded, showing that 1-year ahead inflation expectations have dropped to their lowest level since April 2021. In the UK, gilts rallied, and the pound weakened following data that showed wage growth slowed at the sharpest pace in almost two years, a further sign that the labor market is cooling two days before the Bank of England decides on rates. The yen rebounded from its decline yesterday as bets on earlier BoJ hikes remain jittery while a 5-year JGB auction signaled robust bond demand. Crude oil remained steady although an attack on a tanker in the Red Sea briefly raised fears of geopolitical risks.

Key Global Financial Indicators

Last updated: 12/12/23 8:39 AM	Level Last 12m Latest	Change from Market Close				YTD
		1 Day	7 Days	30 Days	12 M	
Equities		%				%
S&P 500	4622	0.4	1	5	16	20
Eurostoxx 50	4551	0.2	2	8	16	20
Nikkei 225	32844	0.2	0	1	17	26
MSCI EM	39	0.6	0	2	1	4
Yields and Spreads		bps				
US 10y Yield	4.21	-2.7	4	-45	60	33
Germany 10y Yield	2.21	-5.6	-3	-50	28	-36
EMBIG Sovereign Spread	398	2	-6	-32	-56	-54
FX / Commodities / Volatility		%				
EM FX vs. USD, (+) = appreciation	47.7	0.3	0	1	-4	-4
Dollar index, (+) = \$ appreciation	103.6	-0.4	0	-2	-1	0
Brent Crude Oil (\$/barrel)	75.4	-0.8	-2	-7	-3	-12
VIX Index (% change in pp)	12.6	-0.1	0	-2	-12	-9

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

Mature Markets

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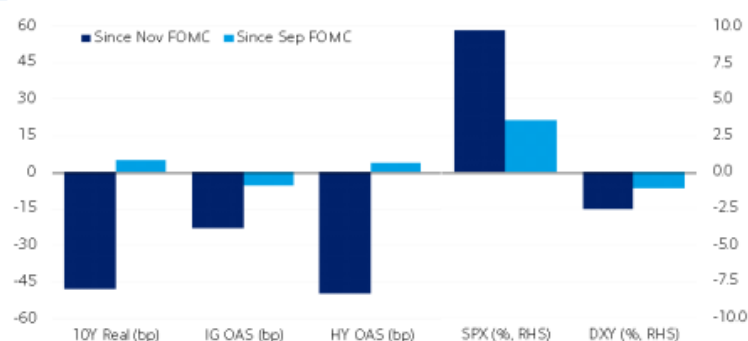
United States

CPI inflation came in at 3.1% y/y or 0.1% m/m in November, matching expectations. Core inflation accelerated to 0.3% m/m with annual reading flat at 4%. Treasury yields and stock futures only fractionally moved up after the release.

For tomorrow, market contacts expect the Fed to keep policy rates unchanged while leaning dovish. In its last meeting on November, the Fed cited “*tighter financial conditions*” as a reason to remain on hold. Since then, Bank of America analysts note that financial conditions have eased, albeit they remain tighter than in Summer or since the beginning of the year. At the same time, economic data has pointed to a moderation of economic activity, confirming the disinflationary trend and a cooling labor market.

Exhibit 1: Financial conditions since the Nov & Sept FOMC meetings

Fed held in Nov b/c tight fin conditions; conditions have since eased but will still deliver dovish Dec hold

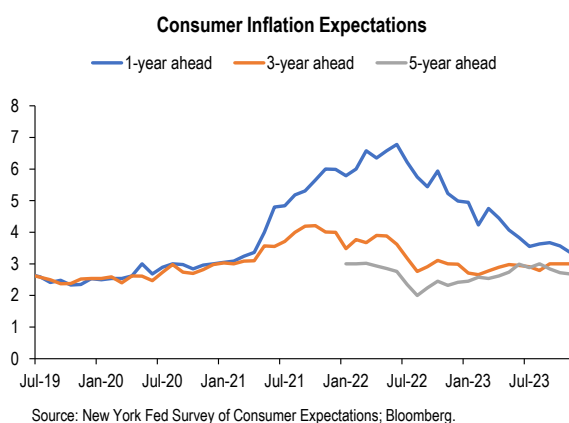


Source: Bloomberg

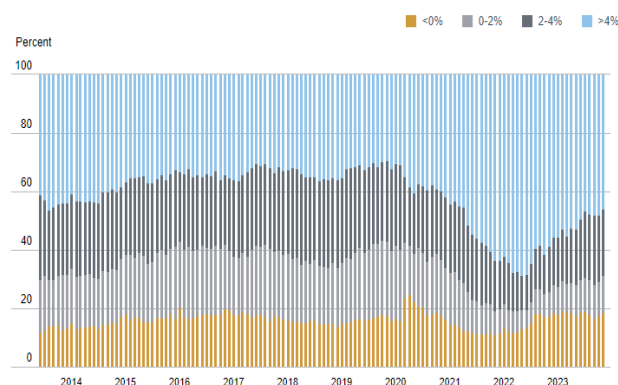
BofA GLOBAL RESEARCH

The consumer near-term inflation expectations dropped to their lowest readings since April 2021.

The NY Fed's latest edition of the Survey of Consumer Expectations for November shows that median 1-year ahead inflation expectations fell for a second month to 3.4% from 3.6% previously, driven by a decline in expected price changes in gas, rent and college education. Longer-term inflation expectations were unchanged, with median 3- and 5-year ahead expectation at 3% and 2.7%, respectively. The probability of inflation falling below 4% within a 1- and 3-year horizon has surpassed 50% and 66%, respectively.



Probability of inflation outcomes: 1-year ahead



Euro Area

Euro area sovereign yields eased while the euro was stronger against the dollar ahead of the US inflation print due later today. The euro (+0.3%) was trading at around €1.079/\$) and euro area sovereign yields were lower (10y bund yield -5bps to 2.22%). European equities were trading in a tight range, with the Stoxx 600 equity index little changed after reaching a 22-month high yesterday.

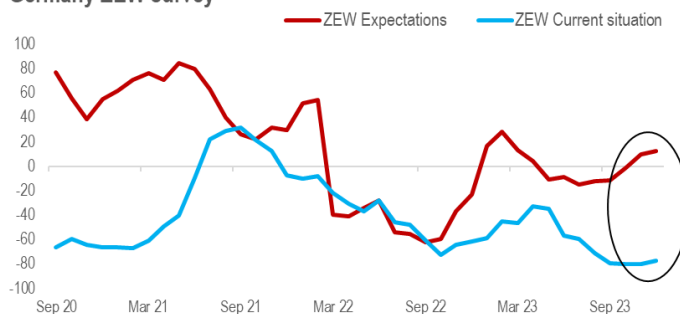
European Stocks: Selected Indices, Jan 2023 = 100



Source: Bloomberg and IMF calculations

The German ZEW expectations survey unexpectedly improved in December, increasing to 12.8 (versus expected 9.5 from 9.8), while the current situation component improved by less than expected (to -77.1 versus expected -76.0 from -79.8). The ZEW President noted that more respondents now expecting that the ECB would cut interest rates in the medium term supported the economic expectations component, while market contacts perceive that the budget crisis in Germany dragged a more notable increase of the ZEW index.

Germany ZEW survey

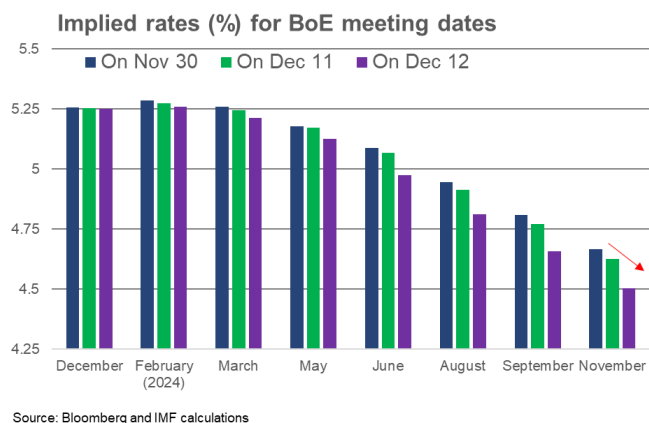


Source: Bloomberg and IMF calculations

United Kingdom

Gilt yields fell sharply after data showed UK wage growth slowing more than expected, ahead of the BoE meeting on Thursday. Data released this morning showed growth in average weekly earnings moderating to 7.2%3m/y in October (versus expected 7.7% from 8.0%), and weekly earnings excluding bonuses easing to 7.3%3m/y in October (versus expected 7.4% from 7.7%). Moreover, analysts highlight that it is the first time since January 2021 that private sector ex-bonus pay growth entered negative territory in month-on-month terms. Nevertheless, contacts highlight that despite easing momentum, the labor market remains tight. The August-October unemployment rate stayed unchanged at 4.2% in the ONS experimental estimate. Gilt yields sharply dropped by -11bps, with the 10y gilt yield easing back to below 4%, while the pound pared gains against the dollar to trade little changed (at around 1.26 against the dollar) later in the session. Markets are now pricing in the first BoE rate cut in June 2024, with -75bps of easing priced in by

November next year. Analysts continue to expect that the BoE would remain on hold at the upcoming meeting, while views on when the BoE will start easing rates differ significantly. Morgan Stanley analysts still expects the first BoE rate cut in May 2024, while Bank of America analysts forecast the first rate cut in February 2025, while also acknowledging an increased probability that the BoE might start cutting rates earlier.



Norway

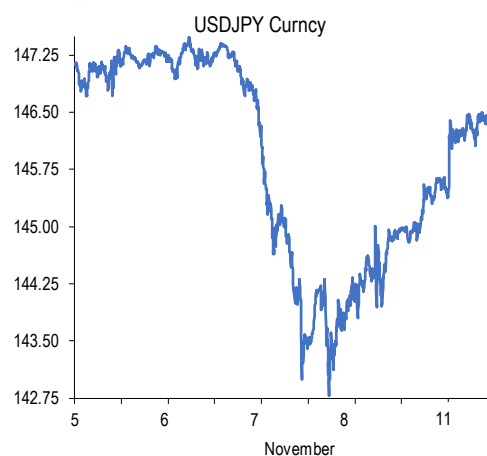
The Norwegian krona appreciated against the euro after monthly GDP data surprised on the upside in October. Mainland GDP grew by +0.4% m/m (exp 0.0% from +0.3%), but JP Morgan analysts note that the underlying trend remains weak and highlight the risk of potential downward revisions. JP Morgan analysts do not expect today's data release to impact Norges Bank's policy decision this Thursday, with rates still expected to remain on hold. The Norwegian krona was trading +0.3% stronger against the euro this morning (at around 11.77) but remains -10.8% weaker YTD.

Japan

The result of a 5-year government auction was much stronger than expected, prompting Japanese Government Bonds (JGBs) to continue yesterday's rally. 5-year JGBs declined by -4bps on the day to 0.306% while the yen gained -0.6% to 145.29/\$.

Yesterday, the Japanese yen reversed last week's gains following report that pushed back against imminent lift-off. Governor Ueda's comments to the Committee on Financial Affairs last week had paved the way for the yen to gain as much as 2% against the US dollar. Markets interpreted the statement that his job would be more challenging from year-end as policy normalization starting sooner than expected. Markets expected as much as a 33% percent chance that the BoJ could raise rates at its December meeting next week. This ignited a rally in the yen despite that the Governor stated that sustainable inflation "*is not yet envisaged with sufficient certainty at this point*" at the same hearing. Hence, a large share the currency's gains sizzled out quickly. Yesterday, a Bloomberg report further pushed back, emphasizing that BoJ officials had not seen sufficient increase in wage growth saw the yen depreciate further on the day (-0.8%).

The Japanese yen reversed most of its gains from last week as markets pushed forward lift-off expectations
Japanese yen per US dollar



Despite the push back against the imminent lift-off, markets continue to expect the BoJ to raise rates in April, along with half of the economists surveyed by Bloomberg.

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EMEA equity and currency markets were mixed, while local currency sovereign debt yields were mostly lower. Equity markets in Romania (+0.5%) outperformed while those in Poland (-0.7%) were lower. The South African rand outperformed against the dollar (+0.9% to 18.92/\$) while CEE currencies were mostly weaker against the euro. The Hungarian forint, however, strengthened (+0.1% to 382.96/€)

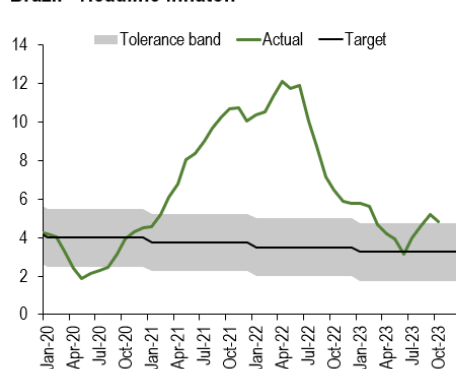
Most Asian currencies mildly appreciated while regional stock markets lacked clear direction. All currencies but the Thai baht (-0.9%) fractionally gained, led by the Chinese renminbi (+0.1%) and Philippine peso (+0.1%). Stock markets fell in India (-0.5%) and Thailand (-0.5%) while gaining in Indonesia (+0.5%). For the Thai baht, Standard Chartered analysts clarify that yesterday was a bank holiday in Thailand, prompting the currency to catch-up with the consolidation of Asian currencies on the heels of the stronger-than-expected US payrolls data last week.

Yesterday, most Latin American markets closed lower. The Chilean markets took the largest hit as equities and currency were down 1.8% and 0.8%, respectively. As per media reports, the central bank of Argentina has put a limit on commercial banks' foreign currency holdings and is likely to remain in effect until the end of the year. Equity markets, however, soared 3.7%, while the official exchange rate closed -0.5% lower. Other regional currencies underperformed the broader EM universe on commodity overhang, depreciating 0.2–0.5%.

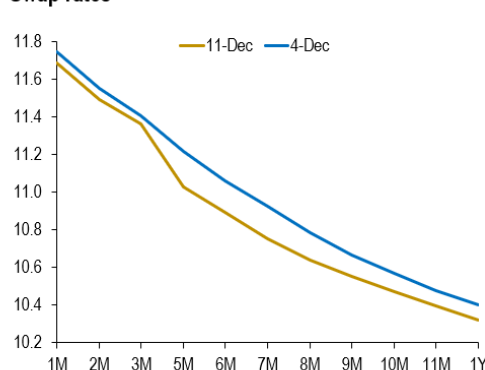
Brazil

Analysts revise 2023 growth estimates upwards to 2.9%, a survey conducted by Brazil's central bank shows. The upward revision comes following upbeat 3Q23 GDP growth at +0.1% q/q last week (exp. -0.3% from revised +1.0%). Despite the stronger than expected growth in economic activity, the central bank is widely expected to deliver a fourth consecutive cut in its next policy rate meeting tomorrow. This is primarily on the back of easing inflationary pressures. The central bank survey participants have also reduced their inflation estimates marginally to 4.51% for 2023. Since 4th December, Brazil's swap curve has shifted down -5 to -19 bps.

Brazil - Headline Inflation



Swap rates

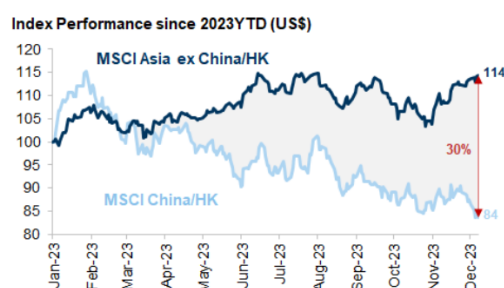


China

Markets' performance in China and Hong Kong SAR continue to diverge from neighbors in the region. Equity performance in the Asia-Pacific region has continued this year. While Indian, Japanese, and

Taiwanese markets are trading around their historical highs, Chinese and Hong Kongese markets are near their post-COVID lows. The divergence between the two markets and the MSCI Asia excluding China and Hong Kong SAR has increased to 30% year-to-date. Chinese equity markets were able to reverse a portion of their underperformance since 2021 back in early November of last year following rumors of earlier than anticipated easing of its lifting off its restrictions from the pandemic. MSCI China surged as much as 58% within three months. Since then, disappointing growth numbers have weighed on the country's equity market performance.

Exhibit 3 : This divergence has led to a significant performance spread between the MSCI Asia ex-China/HK and combined China/HK indices, with the spread widening to 30% ytd





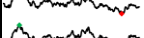
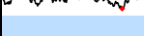


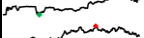










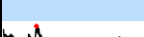
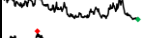
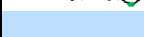


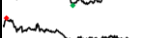


Source: MSCI, FactSet, Goldman Sachs Global Investment Research

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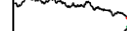





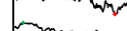















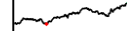

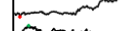






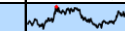

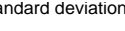




Global Financial Indicators

12/12/23 8:40 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4623	0.4	1	5	16	20
Europe		4547	0.0	2	8	16	20
Japan		32844	0.2	0	1	17	26
China		3427	0.2	1	-4	-13	-11
Asia Ex Japan		65	0.7	0	2	-2	0
Emerging Markets		39	0.6	0	2	1	4
Interest Rates			basis points				
US 10y Yield		4.20	-2.7	3	-45	59	32
Germany 10y Yield		2.21	-5.5	-3	-50	27	-36
Japan 10y Yield		0.72	-4.4	5	-13	47	30
UK 10y Yield		3.97	-9.9	-5	-36	77	30
Credit Spreads			basis points				
US Investment Grade		139	-0.8	-2	-16	-15	-19
US High Yield		416	2.4	-4	-12	-39	-64
Exchange Rates			%				
USD/Majors		103.66	-0.4	0	-2	-1	0
EUR/USD		1.08	0.3	0	1	3	1
USD/JPY		145.3	-0.6	-1	-4	6	11
EM/USD		47.7	0.3	0	1	-4	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		75.2	-1.1	-3	-7	-2	-7
Industrials Metals (index)		135	0.7	0	-1	-20	-18
Agriculture (index)		64	-0.1	-2	-2	-3	-7
Implied Volatility			%				
VIX Index (%, change in pp)		12.6	-0.1	-0.3	-1.6	-12.4	-9.1
Global FX Volatility		7.9	0.0	0.2	0.3	-2.3	-2.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		122	2.3	6	-5	-83	-84
Italy		179	-0.8	5	-7	-10	-36
Portugal		67	-0.3	1	-6	-26	-34
Spain		103	-0.3	2	-3	0	-7

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

Emerging Market Financial Indicators

Last updated: 12/12/2023 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		7.17	0.0	-0.3	2	-3	-4		2.6	-1.0	-8	-3	-53	-44
Indonesia		15620	0.0	-0.7	1	0	0		6.7	3.3	10	-16	-26	-25
India		83	0.0	0.0	0	-1	-1		7.4	-1.9	-3	-20	10.0	-10
Philippines		56	0.1	-0.5	1	0	0		5.9	0.0	2	0	-9	-9
Thailand		36	-0.9	-2.0	1	-2	-3		2.8	-1.7	-13	-42	28	16
Malaysia		4.68	0.0	-0.4	1	-6	-6		3.7	-0.1	-3	-14	-34	-29
Argentina		366	-0.1	-0.9	-5	-53	-52		87.3	-1326.7	-1107	-2313	-161	-86
Brazil		4.94	0.0	-0.2	-1	7	7		10.9	-2.0	-7	-39	-216	-166
Chile		880	0.3	0.1	5	-1	-3		5.1	-0.5	12	-34	-15	-24
Colombia		3962	0.6	0.9	2	22	22		8.0	0.8	3	-40	-202	-175
Mexico		17.33	0.3	0.3	2	15	12		8.8	-1.0	5	-30	46	11
Peru		3.8	-0.5	-0.6	1	2	1		7.1	1.9	0	-12	-69	-92
Uruguay		40	0.0	-1.1	1	-2	1		9.7	0.9	4	-2	-117	-101
Hungary		354	0.6	-0.7	0	11	5		6.1	-11.0	-25	-118	-328	-353
Poland		4.02	0.1	-0.5	3	11	9		4.5	-11.1	-8	-54	-103	-167
Romania		4.6	0.3	-0.2	1	2	0		6.6	3.7	2	-11	-88	-110
Russia		90.0	1.1	2.6	2	-30	-18							
South Africa		19.0	0.7	0.0	-1	-7	-10		9.2	-9.2	-7	-34	-5	4
Turkey		29.05	-0.2	-0.4	-2	-36	-36		26.9	-4.0	11	-480	1592	1708
US (DXY; 5y UST)		104	-0.5	-0.4	-2	-1	0		4.23	-2.1	9	-46	44	22

	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		3427	0.2	1	-4	-13	-11		154	0	-9	-28	-23	
Indonesia		7125	0.5	0	4	5	4		105	-5	-21	-49	-35	
India		69551	-0.5	0	7	11	14		110	-15	-18	-31	-32	
Philippines		6292	1.0	0	3	-4	-4		84	-6	-18	-37	-13	
Thailand		1374	-0.5	0	-1	-15	-18		0	0	0	0	0	
Malaysia		1447	0.1	0	0	-2	-3		85	-3	-7	-9	-15	
Argentina		976823	3.7	12	48	487	383		1947	-16	-535	-407	-258	
Brazil		127100	-0.1	0	5	21	16		215	0	-10	-44	-59	
Chile		5895	-1.4	1	5	12	12		125	0	-21	-11	-7	
Colombia		1141	-0.3	-1	3	-7	-11		297	2	-18	-85	-75	
Mexico		54439	0.1	1	6	8	12		361	13	-5	-16	-20	
Peru		22099	0.3	-1	1	2	4		149	8	-13	-16	-31	
Hungary		58425	0.2	0	2	33	33		160	-7	-30	-59	-62	
Poland		76851	-0.7	0	7	36	34		99	-4	-16	21	26	
Romania		15126	0.3	2	4	24	30		200	-2	7	-52	-56	
South Africa		73218	-0.9	-3	3	-2	0		343	0	-32	-41	-24	
Turkey		7767	0.5	-4	0	50	41		346	-10	-36	-96	-94	
Ukraine		507	0.0	0	0	-2	-2		3650	-172	159	-301	-429	
EM total		39	0.2	0	2	1	4		358	-6	-39	-17	-17	

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

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