



- **US equity valuations could be justified by stronger earnings** ([link](#))
- **Consensus expects a weaker dollar in 2025** ([link](#))
- **Money markets in US may face strains as Treasury issuance increases** ([link](#))
- **Support measures announced in China disappoint markets** ([link](#))
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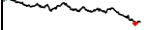



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Sentiment improves as most markets rally into weekend

Most stock markets in Europe were higher and US equity index futures were also up, although stocks in Asia lost ground. The big US technology stocks were once again in the news, with AI as a prominent theme to boost share prices. However, US Treasury yields ticked up to their highest level in three weeks, with the 10-year Treasury yield hitting 4.35%. Investors are worried that a significant increase in interest rates could derail the ongoing market rally. In China, markets sold off after new measures announced by the authorities to support the economy were viewed as insufficient. Meanwhile, President Macron named centrist politician Francois Bayrou as the next prime minister of France after the fall of the previous government last week. Looking ahead, the focus will now shift to the FOMC and BOE meetings next week, with markets expecting a 25 bp rate cut to 4.25% from the Fed and for the BOE to stay on hold at 4.75%. Sweden's Riksbank is expected to cut by 25 bps to 2.5%, while Norway's Norges Bank is expected to stay on hold at 4.5%.

Key Global Financial Indicators

Last updated: 12/13/24 8:00 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		6051	-0.5%	0	1	32	28
Eurostoxx 50		4976	0.2%	1	2	9	10
Nikkei 225		39470	-1.0%	0	0	20	18
MSCI EM		1114	0.0	1	0	12	10
Yields and Spreads			bps				
US 10y Yield		4.35	1.4	6	-6	1	36
Germany 10y Yield		2.24	3.0	7	-20	-14	10
EMBIG Sovereign Spread		325	-1	-7	0	-71	-58
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		43.8	-0.2	0	-1	-8	-9
Dollar index, (+) = \$ appreciation		106.5	0.1	0	1	2	5
Brent Crude Oil (\$/barrel)		73.3	1.5	1	2	-4	-5
VIX Index (% change in pp)		13.6	-0.6	0	-1	1	1

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

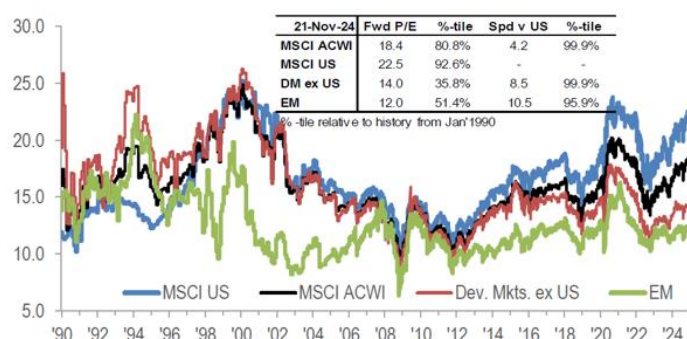
Mature Markets

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United States

Despite rich valuations for US equities, optimism with regard to the market remains high, with multiple analysts pointing out that US companies have delivered much larger profits than their rivals around the world. The US equity market's forward price earnings (P/E) ratio is at 92.6% in terms of the percentile distribution since 1990, versus 35.8% for advanced economies excluding the US and 51.4% for emerging markets. However, this could be justified because US companies are vastly more profitable - the vast majority of the profits in the MSCI All World Equity Index are coming from US companies.

Figure 5: US Exceptionalism: Valuations vs Rest of World



Hardening divergence

U.S. equity performance vs. the rest of the world, 2010-2024



Chart takeaway: U.S. equities have outperformed the rest of the world, fueled by robust corporate earnings. We see divergences across markets widening as mega forces reshape economies and sectors – creating opportunities.

The consensus forecasts call for the US to outperform most other markets again in 2025. The expectations are that interest rates will remain rangebound next year, which is positive for equities. In addition, more tax cuts would also benefit US corporate balance sheets, while a more friendly regulatory environment is expected provide another tailwind. However, potential trade wars, an unexpected resurgence in inflation, and geopolitical flareups are among the risks facing US markets next year.

2025 Equity Forecasts

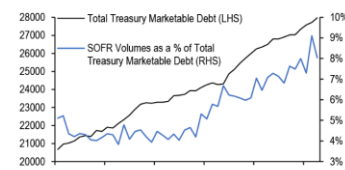
Source: Bloomberg, JP Morgan, SMBC Nikko, UBS, State Street

Index	Spot	Consensus Forecast	Change
S&P 500	6063	6517	+7.5%
Stoxx 600 EUR	519	533	+2.7%
TOPIX	2741	3050	+4%
MSCI EM	1147	1205	+5.8%
CSI 300	3995	4501	+12.6%

Money markets in the US could face problems when Treasury issuance is increased to fund expansionary fiscal policies next year. Much of the issuance so far is being financed in the repo markets, which could come under strain if they are forced to deal with unexpectedly large supply increases. JP Morgan analysts used Secured Overnight Funding Rate (SOFR) futures as a proxy for the volume of Treasuries being financed in the repo market and found that volumes had more than doubled in 2024. The spread between SOFR and the Fed Funds rate is rising, a potentially troubling development. The markets will also have to fund a sharp increase in equity repo transactions, further complicating the situation.

Figure 132: Using SOFR volumes as a proxy for the amount of Treasury collateral being financed in the marketplace, they have grown from roughly 4% in 2022 to 8-9% in 2024

Total marketable Treasury debt (\$bn) vs SOFR volumes as a % of total Treasury marketable debt (%)



Source: US Treasury, J.P. Morgan

Figure 133: Dealers have increased need to finance equity collateral on behalf of their clients, as reflected in the rise in equity tri-party repo volumes this year

Equity tri-party repo volumes (\$bn)

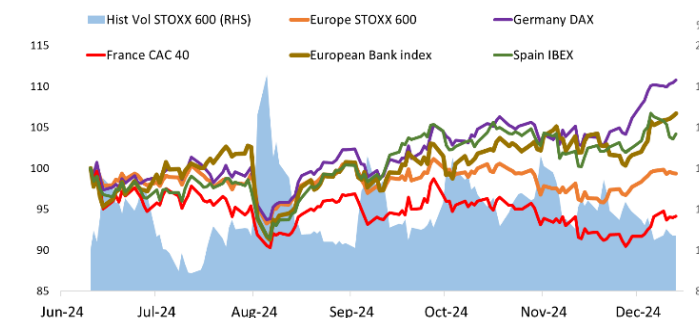


Source: Federal Reserve, J.P. Morgan

Europe

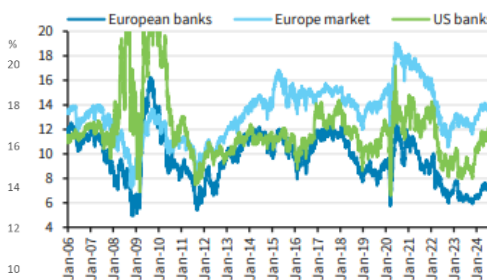
European equities were mostly higher this morning after yesterday's mildly dovish ECB statement and expected 25 bps rate cut, taking the policy rate to 3%, the fourth 25 bps rate cut since June. Futures markets are raising their expectations of a 50 bps rate cut in January, although forward rates now imply a terminal policy rate level of 1.73% in October 2025, against 1.64% priced-in before yesterday's decision.

European Stocks (May 2024= 100)



Source: Bloomberg and IMF calculations

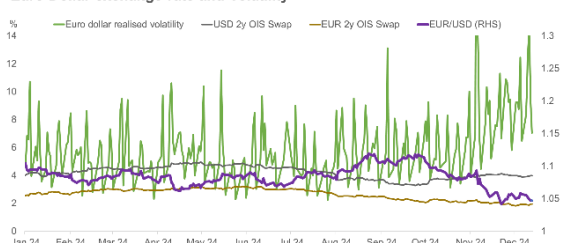
1 yr fwd P/E valuation remains compelling



Source: Barclays Research, Priced from Bloomberg

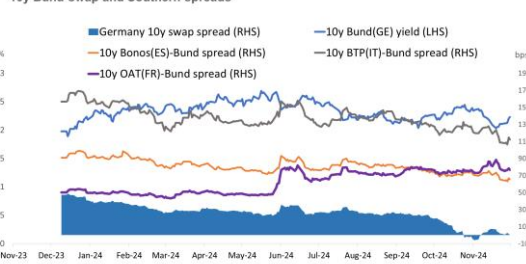
In spite of those seemingly dovish elements, **European sovereign bonds saw a heavy sell-off yesterday and government bond yields continued to edge higher today (by around 3bps) across tenors, with the 2y Bund yield at 2.04% and the 10y Bund yield at 2.23%.** The 10y BTP-Bund spread rose yesterday (+8bps) before falling slightly (-2bps) this morning to 112 bps, while the French-German spread moved fractionally higher to 77bps. **The euro closed the day lower (-0.3%) yesterday after the decision of the ECB but has regained some ground (0.2%) this morning against the dollar, trading at \$1.0490/€.**

Euro-Dollar exchange rate and Volatility



Source: Bloomberg and IMF calculations

10y Bund-swap and Southern spreads

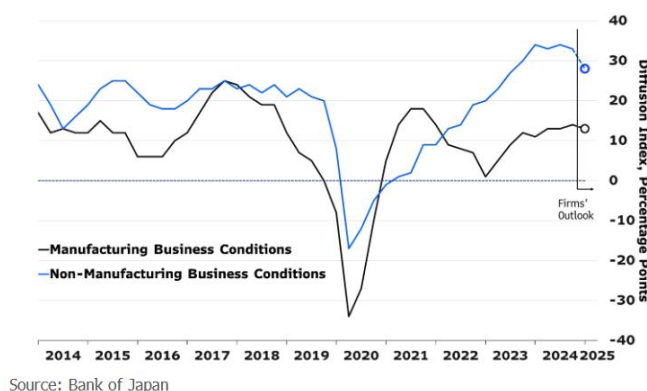


Source: Bloomberg and IMF calculations

Japan

The Bank of Japan's (BOJ) Tankan survey indicates a modest improvement in business sentiment, but not enough to trigger a December rate hike. Overnight index swaps are pricing in just a 15.6% chance of a rate hike in December but are pricing 70.2% by January. The sentiment index for large manufacturers rose to 14 in Q4, exceeding both expectations and the previous reading of 13. Meanwhile, the index for large non-manufacturers fell to 33 from 34, reflecting ongoing challenges in consumer-facing sectors. The survey reveals that companies expect inflation to remain above the BOJ's 2% target, at 2.4% in a year and 2.2% in five years, influencing their wage and pricing strategies and bolstering expectations for future price growth. Market reactions included a slight weakening of the yen to 153.2 per dollar (-0.3%), and a decline in the stock market (NIKKEI 225: -0.95%) despite the positive Tankan data.

Tankan Current Conditions, Outlook Indexes



Foreign Exchange Markets

Analyst forecasts indicate that the market consensus is that the dollar will be weaker in 2025, ending multiple years of appreciation. The renminbi is one of the few major currencies expected to depreciate further next year. For the rest, Morgan Stanley thinks that the outperformance of the US economy relative to the rest of the world is already fully priced in for the dollar, and that the odds of negative surprises for US data are rising. This could result in the Fed remaining dovish for longer, limiting the scope for further dollar appreciation. In addition, they think US tariffs will be more limited than current forecasts and that they will take longer to implement, eliminating another potential source of dollar strength. However, investors are currently extremely long dollars versus most other currencies, so that a weaker dollar could be a “pain trade” for many market participants, making for a more volatile environment in FX markets in the new year.

Exhibit 60: FX investors are positioned long USD across the board...

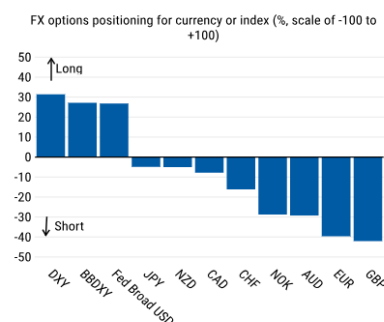
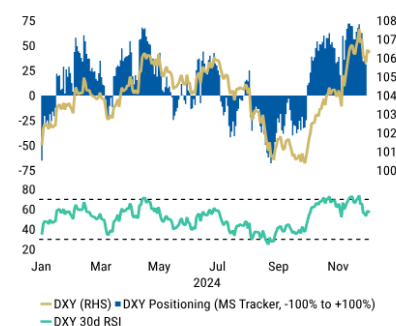


Exhibit 61: ...and positioning remains at elevated levels



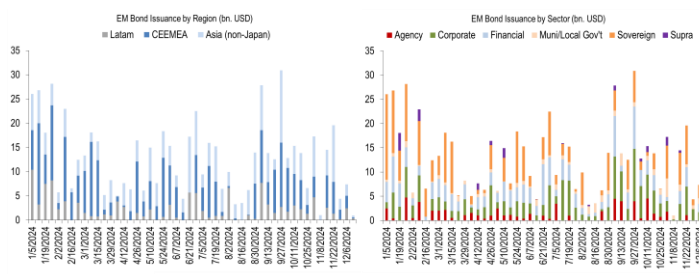
Emerging Markets

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EMEA markets were mixed. In CEE, equities gained in Czechia (0.5%), while currencies advanced fractionally against the euro. In Türkiye this morning the lira was little changed against the dollar at 34.95/\$. In South Africa, the rand lost (-0.6%) against the dollar this morning, trading at a around 17.90/\$ while equities rose by 0.5%. **Asian equity markets experienced broad declines today, led by onshore and offshore Chinese stocks (CSI 300: -2.4%; HSI: -2.1%), as investor sentiment was weighed down by a lack of details on growth measures from the Chinese economic conference.** Asian currencies mostly depreciated against the dollar, led by the Thai baht (-0.6%) and the Indonesian rupiah (-0.4%). The central bank of Indonesia intervened aggressively to curb the rupiah's decline toward the key 16,000 per dollar level. **Latin American currencies depreciated against the dollar while equities were mixed.** Brazilian assets underperformed as markets digested the 100 bp rate hike. The real fell 1.4% intraday before closing 0.6% lower and equities (-2.7%) had their worst day since January 2023. Across the region, equities gained in Chile (+0.7%) and Argentina (+0.6%).

EM Bond Issuance

EM weekly bond issuance fell to the lowest level of 2024 through Thursday. Weekly bond issuance fell to \$0.94bn, from \$7.4bn last week, which would be the lowest level of the year. Regionally, Asia ex-Japan made up about 40% of the total, followed by Latam (38%) and CEEMEA (22%). Corporates (50%) dominated the sectoral composition, while the rest was from Muni/Local Gov (28%) and Sovereign (22%). Maturities of the bonds issued this week ranged from three to 10 years.



China

China's Central Economic Work Conference (CEWC) confirmed a commitment to support demand but disappointed markets due to a lack of detailed policy measures. The onshore benchmark (CSI 300) fell 2.4%, while a gauge of Hong Kong-listed Chinese stocks (HSCEI) dropped 2.4%. The meeting outlined broad policy directions for increased government borrowing, a larger fiscal deficit, and continued monetary easing, with specifics to be unveiled at the National People's Congress (NPC) meeting next March. Some economists suggest Beijing may be withholding policy details ahead of potential tensions under the second Trump presidency, highlighting challenges in restoring investor confidence. Citigroup analysts predict that the PBOC may announce a required reserve ratio cut soon to demonstrate its commitment to CEWC decisions. Promises of interest rate cuts have pushed the 10-year government bond yield to a record low of 1.77%. Sector-wise, property stocks fell both onshore (-3.1%) and offshore (-3.7%) due to a lack of new measures, and consumption stocks declined (-2.6%) despite the emphasis on stimulating domestic demand as the top priority. The RMB slightly depreciated (-0.14%), despite the PBOC called for yuan gains before year-end to avoid corporate balance sheet discrepancies between the yuan fixing and market rate.

China's Top Leaders Pledge to Focus on Consumption, Demand

A look at top tasks from central economic work conference in past years

Year Top priority outlined by meeting

2015	Resolve excess capacity
2016	Deepen supply-side reform
2017	Deepen supply-side reform
2018	Push for manufacturing's high-quality growth
2019	Adopt a new development philosophy
2020	Strengthen strategic tech
2021	Make macro policies stable, effective
2022	Expand domestic demand, prioritize consumption
2023	Promote tech innovation to build modern industry
2024	Lift consumption, investment returns and domestic demand

Source: State media releases, Bloomberg

China's 10-Year Yield Plunges To New Low

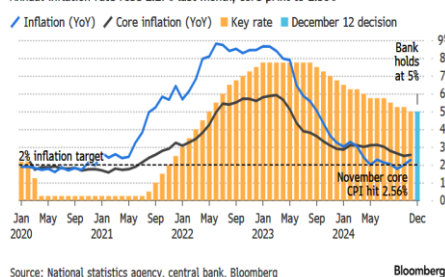


Peru

Peru's central bank holds key reference rate at 5% as expected. The decision was correctly predicted by nine of 12 analysts in a Bloomberg survey, while the rest expected a 25 bp cut. Policymakers highlighted that any future adjustments to monetary policy would depend on the evolution of core inflation, inflation expectations, and economic activity. Bloomberg analysts note that Peru currently has the lowest inflation and interest rates among major Latin American economies and expect the country to cut rates by an additional 100 bps during 2025.

Peru Central Bank Keeps Key Interest Rate at 5%

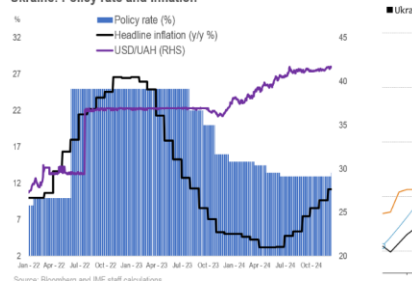
Annual inflation rate rose 2.27% last month, core print to 2.56%



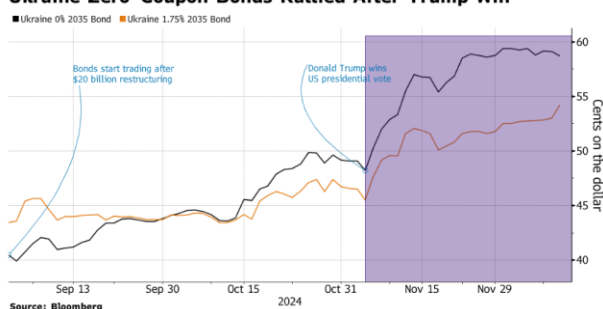
Ukraine

The central bank of Ukraine yesterday surprised markets with a 50bps rate increase to take the key rate to 13.5%, while consensus had expected rates to remain on hold. The accompanying press release stated that the decision aims to maintain FX market stability, anchor inflation expectations, and gradually reduce inflation toward the 5% target. This follows after headline inflation surprised on the upside in November, increasing to +11.2% y/y. The central bank had paused its easing cycle in July, with contacts noting that guidance since then had been for rates to stay unchanged for the remainder of this year. Goldman Sachs analysts see another 50bps rate hike as possible at the next policy meeting in January, while Raiffeisen analysts have also revised their forecast for the key rate by end-2025 to 11.5% (from 10.0%). Meanwhile, **Ukrainian bonds have rallied on hopes of a peace deal between Russia and Ukraine.**

Ukraine: Policy rate and Inflation









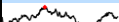






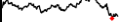










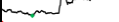
Ukraine Zero-Coupon Bonds Rally After Trump Win



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Global Financial Indicators

12/13/24 8:00 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		6,051	-0.5	0.0	1.5	31.7	28
Europe		4,978	0.2	0.8	2.2	9.2	10
Japan		39,470	-1.0	0.2	0.0	19.9	18
China		3,933	-2.4	1.5	-2.4	16.4	16
Asia Ex Japan		75	0.2	0.9	-0.6	16.5	13
Emerging Markets		44	0.2	1.1	-0.4	12.4	10
Interest Rates			basis points				
US 10y Yield		4.4	1	6	-6	1	36
Germany 10y Yield		2.2	1	7	-20	-14	10
Japan 10y Yield		1.0	1	1	7	31	46
UK 10y Yield		4.3	-1	7	-11	24	78
Credit Spreads			basis points				
US Investment Grade		116	-1	0	2	-24	-18
US High Yield		308	-1	-1	6	-106	-77
Exchange Rates			%				
USD/Majors		106.5	0.1	0.2	0.9	2.3	5
EUR/USD		1.05	-0.3	-0.1	-1.5	-2.5	-5
USD/JPY		152.5	0.3	1.2	-0.8	4.3	8
EM/USD		43.8	-0.2	0.3	-1.2	-7.9	-9
Commodities			%				
Brent Crude Oil (\$/barrel)		73.3	1.5	1.3	2.3	-2.2	-1
Industrials Metals (index)		146.3	-0.1	-0.4	0.4	9.0	3
Agriculture (index)		57.6	-0.4	2.9	1.6	-10.2	-8
Implied Volatility			%				
VIX Index (%, change in pp)		13.6	-0.6	0.2	-1.4	1.0	1.2
Global FX Volatility		8.6	0.0	-0.3	0.1	0.7	0.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		78	-2	-6	-10	-42	-26
Italy		106	-2	-9	-20	-73	-61
France		77	0	-7	1	21	23
Spain		63	-1	-7	-10	-40	-34

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

Emerging Market Financial Indicators

Last updated: 12/13/2024 7:57 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.27	-0.1	0.0	-0.6	-1.4	-2.4		1.8	-1	-10	-21	-91	-80
Indonesia		16009	-0.4	-1.0	-1.4	-2.2	-3.8		7.0	1	4	15	22	42
India		85	0.1	-0.1	-0.5	-1.6	-1.9		7.1	3	-4	-19	-25	-15
Philippines		58	-0.4	-1.3	0.4	-4.1	-5.3		0.0	-700	-708	-694	-687	-694
Thailand		34	-0.7	-0.2	2.2	3.4	0.4		2.3	1	1	-14	-55	-43
Malaysia		4.45	-0.3	-0.7	-0.1	5.8	3.2		3.8	-1	2	-8	-2	7
Argentina		1018	-0.2	-0.6	-2.0	-64.0	-20.6		28.8	-35	-124	-180	-5198	-5753
Brazil		6.03	-0.6	0.9	-3.9	-18.5	-19.6		14.5	16	16	119	402	441
Chile		981	-0.2	-0.6	-0.2	-10.6	-10.2		5.4	4	5	-12	-16	2
Colombia		4347	0.0	1.6	2.4	-8.1	-10.9		11.2	14	35	49	48	126
Mexico		20.19	0.1	0.0	1.6	-14.6	-16.0		10.0	0	2	-9	52	90
Peru		3.7	-0.3	-0.3	1.4	1.0	-0.9		6.6	0	3	-15	-51	-12
Uruguay		44	-0.6	-2.8	-5.0	-11.4	-12.5		9.6	3	1	15	-8	7
Hungary		389	0.5	0.6	-0.8	-10.4	-10.8		6.1	0	-14	-45	-28	23
Poland		4.06	0.6	-0.6	1.2	-2.6	-3.1		5.4	5	3	0	36	41
Romania		4.7	0.4	-0.6	-0.5	-3.4	-4.8		7.0	1	-18	27	43	82
Russia		103.5	1.5	-3.1	-4.7	-12.9	-13.6							
South Africa		17.9	-0.5	0.7	1.8	4.4	2.6		10.3	-2	-3	-25	-121	-94
Türkiye		34.95	-0.2	-0.5	-1.7	-17.1	-15.5		30.9	9	62	8	472	469
US (DXY; 5y UST)		107	-0.2	0.7	0.3	3.8	5.4		4.21	2	17	-10	24	36

	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		3,933	-2.4	-1.0	-0.9	17.7	14.6		99	0	-1	-55	-59		
Indonesia		7,325	-0.9	-0.8	2.3	1.9	0.7		91	-10	13	-14	-5		
India		82,133	1.0	0.5	5.9	14.9	13.7		85	-1	4	-25	-31		
Philippines		6,617	-0.4	-1.7	-0.9	2.1	2.6		80	-8	15	-5	0		
Thailand		1,432	-0.6	-1.3	-0.8	2.9	1.1		0	0	0	0	0		
Malaysia		1,609	0.4	-0.3	1.0	10.0	10.6		70	2	10	-15	-15		
Argentina		2,304,090	0.6	4.2	12.8	129.6	147.8		715	-66	-104	-1179	-1198		
Brazil		126,042	-2.7	-1.4	-1.3	-2.6	-6.1		217	-7	13	1	2		
Chile		6,765	0.7	1.7	3.1	12.4	9.2		111	-9	1	-17	-14		
Colombia		1,385	0.1	0.6	3.5	18.8	15.9		303	-23	-7	2	32		
Mexico		51,284	-0.2	0.1	1.1	-7.0	-10.6		297	-9	9	-66	-37		
Peru		30,134	-0.2	1.7	-1.6	33.1	16.1		131	-10	-4	-21	-13		
Hungary		80,417	-0.2	1.6	4.3	36.6	32.7		141	-21	1	-21	-8		
Poland		81,821	0.1	-1.3	1.8	6.3	4.3		102	-14	0	0	5		
Romania		17,395	0.0	4.5	-1.6	14.5	13.2		208	-18	13	4	7		
South Africa		87,476	0.6	0.6	4.4	20.4	13.8		275	-12	7	-70	-33		
Türkiye		10,036	-0.2	-0.4	7.9	33.3	34.3		252	-9	4	-92	-62		
EM total		44	0.2	0.2	1.9	11.0	9.4		354	-14	-8	-4	9		

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

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