GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, DECEMBER 19, 2025

LEAD EDITOR: SANJAY HAZARIKA

- **Bank of Japan raised its policy rate by 25 bps to a three-decade high of 0.75%** (link)
- **Liquidity injections by PBOC raise expectations for rate cuts** (link)
- **Investors expect higher interest rates and steeper curves in 2026** (link)
- **More frequent dissents at the FOMC could make bond markets more volatile** (link)
- **Strong fundamentals could support US corporate bond market in 2026** (link)
- **Mexico cuts policy rate as expected but forward guidance turns hawkish** (link)
- The GMM will go on winter break starting on Monday and will return on January 5

Mature Markets | Emerging Markets | Market Tables

Global markets remain cautious as BOJ hikes to three-decade high

Most stock markets in Europe were lower and US equity index futures were flat in cautious early morning trading. The Bank of Japan raised its policy rate by 25 bps to 0.75% as expected, but the continued rise in JGB bond yields put pressure on global bond markets as the 10-year JGB yield rose above 2% for the first time since 1999. Government bond yields are higher in Europe and the US. Higher interest rates are considered to be a key risk for markets in the new year, especially if inflation returns. Continued weakness in the Chinese economy prompted speculation about rate cuts in the near future, especially after recent liquidity operations. Mexico cut by 25 bps as expected but Banxico's statement indicated that policymakers could be done for a while due to concerns about inflation, which was also flagged as a key risk by the central bank of Brazil.

Key Global Financial Indicators

Last updated: 12/19/25 8:02 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		6775	0.8	-2	2	15	15
Eurostoxx 50		5741	0.0	0	4	18	17
Nikkei 225		49507	1.0	-3	2	28	24
MSCI EM		53	1.1	-3	-1	26	27
Yields and Spreads					bps		
US 10y Yield		4.14	2.2	-4	1	-42	-43
Germany 10y Yield		2.88	3.3	3	17	58	52
EMBIG Sovereign Spread		259	2	0	-10	-60	-66
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.2	-0.1	0	0	7	8
Dollar index, (+) = $ appreciation		98.7	0.3	0	-2	-9	-9
Brent Crude Oil ($/barrel)		60.1	0.5	-2	-5	-18	-19
VIX Index (%, change in pp)		16.4	-0.5	1	-7	-8	-1

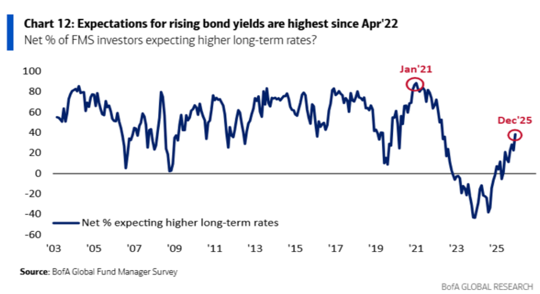
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

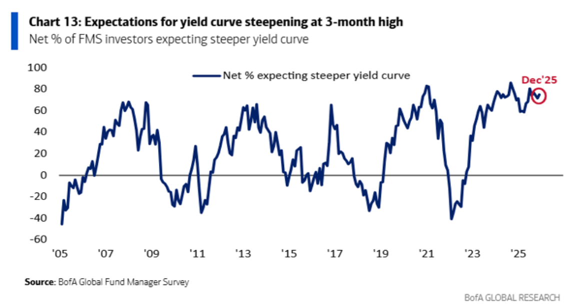
Mature Markets

back to top

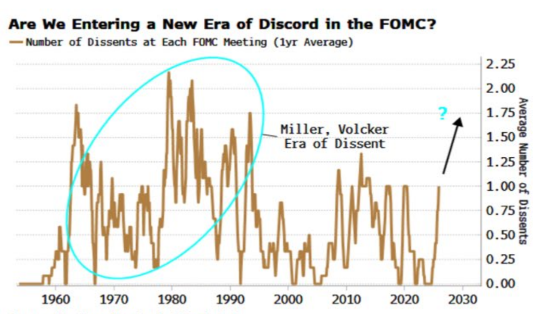
United States

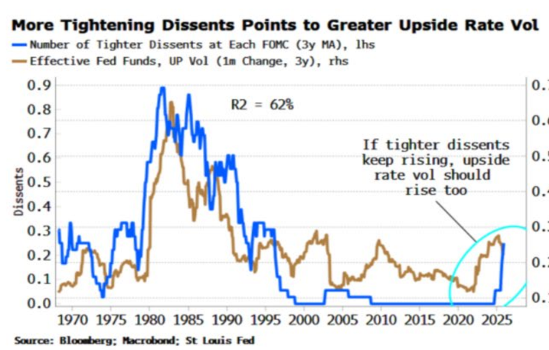
Investors expect higher interest rates in 2026, along with a steeper yield curve, according to Bank of America's December Fund Management Survey. An environment in which interest rates rise, and the yield curve steepens is usually negative for markets, as these circumstances typically occur when inflation is higher than expected and central banks are forced to turn more hawkish. This view of interest rates is in conflict with the overall optimistic tone of the survey, which finds that market optimism is at its highest level since 2021. However, surveys earlier in the year did flag a sudden rise in interest rates and a resurgence of inflation as important tail risks for markets. Most advanced economy government bond markets do not currently foresee a major rise in interest rates, with the exception of Japan. For example, the US forward curve predicts that the two-year yield will rise by 5 bps by the end of 2026 and the 10-year yield by 20 bps, which are not large moves on an annual basis. In 2025, the 10-year yield moved in a range between 4% and 4.80%.



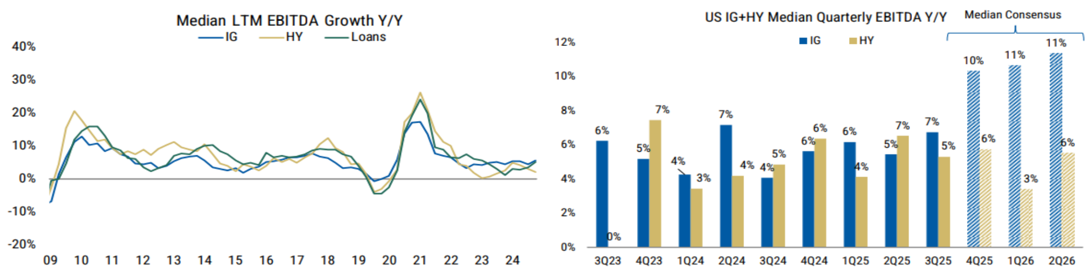


Some worry that rising discord within the FOMC as the hawks potentially battle the doves could inject higher volatility into the US bond market. Fed Chair Powell has presided over the third fewest number of dissents in his term so far among the ten previous Fed Chairs. However, the last FOMC meeting on December 10 featured an unusually high number of dissents, with one dovish dissent calling for a 50 bps rate cut and two hawkish dissents calling for no rate cut. Analysis by Bloomberg finds that periods of hawkish dissents are associated with higher interest rate volatility. The US bond market has benefited from an unusually low level of volatility this year (except for the April tariff-related flareup), and the equity market as well as widely used trading strategies such as the Treasury-Futures basis trade have been supported by this low volatility. A regime shift towards higher volatility could be highly disruptive to the US financial system.





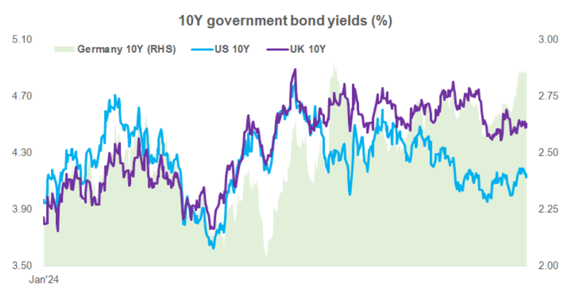
Most analysts believe that strong fundamentals will continue to boost the US corporate bond market in 2026. Earnings for companies in the investment grade (IG) bonds, high yield (HY) bonds and leveraged loans spaces are expected to see continued earnings growth in the new year. In addition, cash levels remain high despite the heavy spending by hyperscalers and other AI-related companies. Also, interest coverage ratios improved in 2025, and leverage ratios remained steady. For IG companies, Morgan Stanley reports that gross leverage has remained in a narrow 2.25–2.40x range over the past 18 quarters, as borrowers exercised restraint and resisted the urge to lever up their balance sheets. The volume of IG issuers with higher leverage than this range fell to 45%, the best level since Q1 2023. The same positive trends also prevail for net leverage, which was stable at 1.79x. However, the surge in AI-related capital expenditures (capex) resulted in $321 bn of new issuance in Q3 2025, a new record. The risk that AI-related capex will not generate enough profits to justify the spending is the key risk for the US bond market in the years ahead.



Source: Bloomberg, FactSet, PitchBook | LCD, S&P Capital IQ, Morgan Stanley Research

Europe

European equities edged lower in early morning trade. The euro was fractionally weaker against a broadly stronger dollar to trade at 1.1711. On the geopolitical front, the EU agreed to loan Ukraine €90bn for the next two years with the loan funded through joint debt issuance. Elsewhere, the Bundesbank raised its economic growth projections for Germany with the economy expected to recover in 2026 and gaining momentum into 2027 on increased defense and infrastructure spending. In France, the government is expected to extend this year's budget through a Special Law expected to be approved next week after the Senate and National Assembly failed to reach an agreement on the 2026 budget.

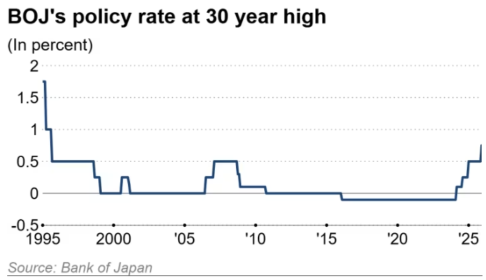


Source: Bloomberg and IMF calculations

Euro area wage growth is expected to accelerate in 2H26. The latest ECB wage tracker projects that salaries will rise by an annual 2.7% in Q4'26, up from 2.5% in Q3'26. According to the ECB, the pickup in wage growth over the course of next year is "related to the dissipation of the mechanical downward effect of large one-off payments that were made in 2024 but not in 2025". Today's data follow yesterday's decision by the ECB to keep borrowing costs unchanged at 2.0% for a fourth straight meeting with President Lagarde reiterating that policy remains "in a good place," but "it's not static" stressing that there was unanimity among the Governing Council (GC) that all options should remain on the table. ECB officials speaking today echoed that sentiment with GC member Rehn remarking that uncertainty remains elevated and that officials "can't give forward guidance or commit to any rate path." European government bond yields were trading higher in early morning trade taking their cue from higher yields in Japan following the BoJ's rate hike. The 2Y bund yield was broadly unchanged at 2.14% while the 10Y bund yield was 4bp higher at 2.89% and the 30Y bund yield climbed 5bp to 3.53%.

Japan

As widely expected, the Bank of Japan raised its policy rate by 25 bps to 0.75%, a three-decade high. The rate increase was its first in 11 months, bolstered by wage growth, receding tariff-related trade uncertainty, and a weakening yen. In its announcement, the BOJ noted that the labor market is tight and that corporate profits "remain at high levels on the whole, even after taking into account the impact of tariff policies." Notably, in the post-meeting press conference, Gov. Ueda indicated that the benchmark interest rate remains “some distance from the lower end of the neutral rate range,” suggesting room for further interest rate hikes while keeping policy accommodative. Overnight index swaps currently imply a 25 bp rate hike every six months to 1.5% by the middle of 2027. **The yen weakened** 0.8% to ¥156.8/USD, underscoring widely-held expectations for the rate hike and highlighting perceptions that the rate hike was perhaps more dovish than expected. Meanwhile, JGB yields broadly rose; the benchmark 10-year note rose above 2% for the first time since 1999 (2.01%).

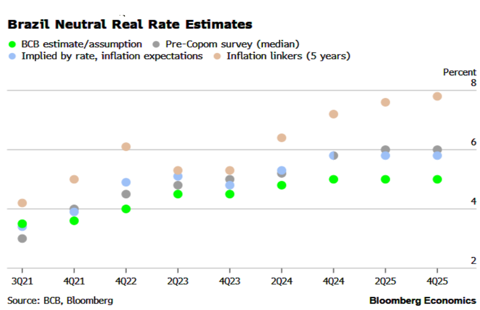


Emerging Markets back to top

EMEA stocks were higher but currencies were mixed. Eurobonds in Ukraine rallied on news of the EU aid deal. **Asian equities stabilized and posted modest gains following the release of lower-than-expected US CPI.** In an otherwise subdued market, the yen lost about 0.8% against the dollar following the BOJ’s widely anticipated rate hike. Meanwhile, Bloomberg reported that the Bank of Korea held an unscheduled board meeting today to discuss measures to stabilize its FX market. **Latam markets were mostly higher, although weakness in Brazil continued.** Stocks in Argentina set a new record high following recent FX policy changes, the announcement of a reserves accumulation plan and an earlier credit rating upgrade.

Brazil

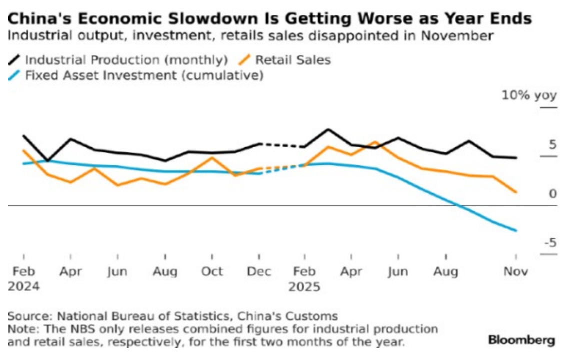
The central bank maintained its neutral real rate estimates at 5%, where it has stood since late 2024. Bloomberg analysts note, however, that the gap between market-implied measures and economists’ estimates of the neutral rate continues to widen. This divergence likely reflects rising concerns over the fiscal outlook or a less supportive external environment, which could require policy rates to remain higher for longer to anchor inflation expectations near target. While the central bank projects inflation to converge to its 3% target in early 2028, it emphasized that there is no “mechanical link” between inflation forecasts and policy rate decisions.



China

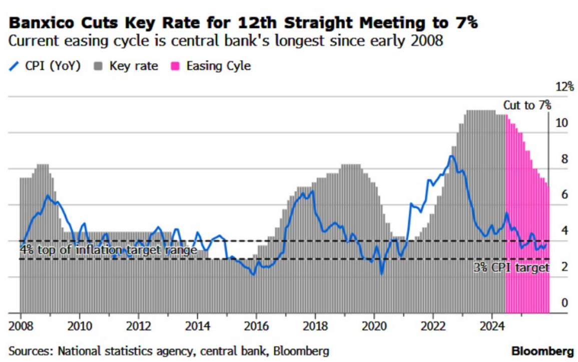
Liquidity injections by the People’s Bank of China (PBC) raised expectations for rate cuts. During the week, the PBC sold RMB 88.3 bn (or roughly $12.6 bn) of 7-day reverse repos at 1.4%, and sold RMB

100 bn (or $12.2 bn) of 14-day reverse repos through a bidding process with multiple price levels, injecting a net total of RMB 69.7 bn. The use of the 14-day reverse repos, the first in three months, is seen as liquidity management related to year end demands. It nonetheless also bolstered market expectations for a 50-bp rate cut in the reserve requirement ratio (RRR) as early as January, according to the Shanghai Securities News. By Golden Credit Rating's estimate, a 50 bp reduction in RRR could inject RMB 1 tn ($142 bn) of long-term liquidity, allowing banks to front-load credit support for the new year and provide a liquidity buffer for the Lunar New Year holidays. The domestic economy has seen a softening in growth momentum heading into year end. A rate cut could thus help keep funding ample and encourage banks to boost lending to the broader economy. Both the onshore and offshore RMB were unchanged on the day.



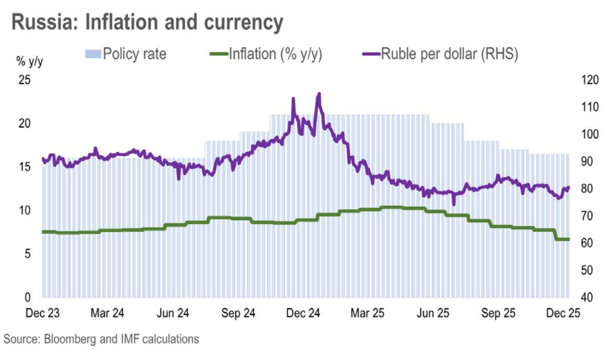
Mexico

Banxico cuts its policy rate by 25 bps to 7.0%, in-line with expectations. The decision was split 4 to 1, with Deputy Governor Heath dissenting in favor of keeping rates unchanged. Its forward guidance signaled a likely pause in the easing cycle, with the policy statement emphasizing that the central bank will assess the "timing for additional reference rate adjustments." Goldman Sachs analysts echoed the cautious tone, noting that a pause appears "warranted" as the ex-ante real policy rate has fallen close to 3.0%, within Banxico's estimated range of the real neutral rate, and as inflation and inflation expectations have shown some recent deterioration. The central bank also maintained that the balance of risks to the inflation outlook remains "biased to the upside," albeit less pronounced than during the 2021 to 2024 period. Headline inflation rose to 3.8% y/y in November, above consensus expectations of 3.7% and up from 3.57% y/y in October.



Russia

The ruble edged lower (-0.5%) **against the dollar** (and the euro), trading at RUB80.43/$ (and 94.19/€), after **the central bank of Russia** (CBR) **cut today its policy rate by 50bps to 16%, as expected.** Policymakers said that further decisions will be made depending on the sustainability of the inflation slowdown (the CPI slowed to 6.64%y/y in November from the most recent peak of 10.34y/y in March) and the dynamics of inflation expectations. The CBR projected inflation below 6% by the end of 2025 but warned that risks to inflation remain tilted to the upside in the medium term, due to a longer upward deviation of the Russian economy from balanced growth and high inflation expectations, alongside increase in VAT and administered prices and deterioration of external trade. The CBR also noted that further decrease in global growth and oil prices may have pro-inflationary effects in Russia through the ruble exchange rate dynamics, with geopolitical tensions remaining a significant uncertainty factor.



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 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), Silvia Ramirez (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). Jeremie Benzaken (Administrative Coordinator), Javier Chang (Senior Administrative Coordinator), and Srujana Tyler (Administrative Coordinator) are responsible for the word processing and production of this monitor.

Global Financial Indicators

12/19/25 8:04 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		6,781	0.8	-0.7	2.1	15.6	15
Europe		5,741	0.0	0.4	3.6	17.7	17
Japan		49,507	1.0	-2.6	1.8	27.9	24
China		4,568	0.3	-0.3	2.6	16.3	16
Asia Ex Japan		90	1.1	-3.0	-1.6	24.7	25
Emerging Markets		53	1.1	-3.1	-1.2	26.4	27
Interest Rates					basis points		
US 10y Yield		4.1	2	-4	1	-42	-43
Germany 10y Yield		2.9	3	3	17	58	52
Japan 10y Yield		2.0	5	7	25	95	92
UK 10y Yield		4.5	4	0	-8	-6	-5
Credit Spreads					basis points		
US Investment Grade		112	-1	1	-9	-4	-8
US High Yield		344	-1	1	-17	20	16
Exchange Rates					%		
USD/Majors		98.7	0.3	0.3	-1.5	-9.0	-9
EUR/USD		1.17	-0.1	-0.2	1.5	13.0	13
USD/JPY		157.2	1.1	0.9	0.0	-0.1	0
EM/USD		46.2	-0.1	-0.2	0.3	7.0	8
Commodities					%		
Brent Crude Oil ($/barrel)		60.1	0.5	-1.7	-4.6	-13.6	-16
Industrials Metals (index)		158.0	1.3	2.1	5.2	13.0	13
Agriculture (index)		53.5	0.0	-2.4	-5.0	-3.8	-6
Gold ($/ounce)		4327.5	-0.1	0.6	6.1	66.8	65
Bitcoin ($/coin)		87947.7	2.8	-0.6	-2.8	-9.6	-6
Implied Volatility					%		
VIX Index (%, change in pp)		16.4	-0.5	0.6	-7.3	-7.7	-1.0
Global FX Volatility		6.6	0.0	-0.1	-0.6	-2.6	-2.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		58	0	-3	-4	-28	-28
Italy		69	0	0	-5	-48	-46
France		72	1	0	-3	-10	-11
Spain		43	0	-2	-7	-27	-26

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

Emerging Market Financial Indicators

12/19/2025 8:06 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		7.04	0.0	0.2	1.0	3.6	3.7		1.9	0	2	7	16	22
Indonesia		16750	-0.2	-0.6	-0.3	-2.6	-3.7		6.1	1	-1	8	-94	-93
India		89	1.1	1.3	-0.8	-4.7	-4.1		7.3	2	1	28	1	-8
Philippines		59	-0.3	0.6	0.4	0.5	-1.3		4.7	0	0	1	-35	-20
Thailand		31	-0.2	0.3	3.2	9.8	9.2		1.8	-1	-3	-3	-54	-56
Malaysia		4.08	0.2	0.5	1.8	10.5	9.7		3.5	-2	-3	11	-29	-27
Argentina		1452	-0.1	-0.8	-3.1	-29.6	-29.0		30.1	160	-149	-152	204	92
Brazil		5.53	-0.2	-2.1	-3.6	11.0	11.6		13.7	2	18	19	-199	-219
Chile		912	-0.1	-0.4	2.2	8.8	9.3		5.3	0	1	9	-18	-41
Colombia		3864	0.0	-1.6	-3.9	13.3	14.0		12.6	5	12	54	127	80
Mexico		18.01	-0.1	0.0	1.8	12.8	15.6		8.9	0	-8	13	-120	-141
Peru		3.4	0.0	0.1	0.2	10.9	11.6		5.7	-1	-9	-28	-96	-89
Uruguay		39	-0.1	-0.3	1.5	13.9	11.4		7.6	-2	-6	-20	-197	-202
Hungary		330	0.1	-0.8	0.1	21.1	20.3		6.6	1	-14	-18	29	13
Poland		3.60	-0.3	0.0	1.9	14.2	14.8		4.6	-3	-5	-12	-86	-95
Romania		4.3	-0.1	-0.2	1.4	10.5	10.5		6.7	-5	-4	-10	-43	-52
Russia		80.3	-0.4	-0.3	0.2	28.8	41.3							
South Africa		16.8	-0.3	0.6	2.5	9.6	12.3		8.8	2	-4	-23	-165	-168
Türkiye		42.81	-0.2	-0.3	-1.1	-18.0	-17.4		30.7	-14	-29	-202	0	97
US (DXY; 5y UST)		99	0.3	0.3	-1.5	-9.0	-9.0		3.68	2	-6	-2	-74	-70

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		4,568	0.3	-0.3	2.6	16.3	16.1		79	4	-16	-13	-17
Indonesia		8,610	-0.1	-0.6	2.3	23.3	21.6		91	3	2	9	0
India		84,929	0.5	-0.4	-0.4	8.8	8.7		94	4	2	23	8
Philippines		5,921	-1.8	-1.9	-1.3	-7.6	-9.3		79	3	3	9	0
Thailand		1,252	0.2	-0.2	-0.2	-8.3	-10.6						
Malaysia		1,666	1.2	1.7	3.0	4.7	1.4		59	1	-3	-1	-11
Argentina		3,163,224	4.2	6.2	10.2	30.7	24.8		579	-62	-45	-76	-58
Brazil		157,923	0.4	-1.8	1.6	30.3	31.3		208	3	4	-46	-39
Chile		10,253	0.6	-1.4	3.8	53.0	52.8		93	1	-2	-17	-20
Colombia		2,055	0.1	-2.5	-0.3	49.6	49.0		285	4	44	-26	-41
Mexico		63,807	2.0	0.6	2.8	29.5	28.9		219	-1	-1	-87	-93
Peru		2,560	1.1	-1.2	12.4	50.4	51.0		100	1	1	-38	-41
Hungary		109,916	0.3	0.3	2.5	39.7	38.6		144	-2	5	6	-11
Poland		115,218	0.6	1.2	4.5	43.7	44.8		93	5	7	-5	-19
Romania		23,910	-0.2	-0.1	3.1	45.6	43.0		183	-6	-12	-33	-52
South Africa		113,556	-0.8	1.3	1.4	34.4	35.0		219	-4	-9	-54	-74
Türkiye		11,336	0.0	0.2	4.0	16.1	15.3		242	-1	-11	2	-17
EM total		53	0.1	-3.1	-1.2	26.4	27.2		275	2	-7	-80	-89

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

back to top