GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, FEBRUARY 16, 2022

- **US corporate earnings remain strong, but converging to pre-pandemic trend** (link)
- **Junk bonds outperform higher quality credit** (link)
- **SEC issues warnings on risks around crypto-based interest-bearing accounts** (link)
- **ECB net asset purchases could end as soon as October** (link)
- **China's central bank eyes 2022 growth return to potential, pledges support** (link)
- **EU Court of Justice dismisses challenges on conditionality mechanism** (link)

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Did they stay or did they go?

Markets are little changed today on continued worries geopolitical risks. Despite statements from Russian authorities that some troops have withdrawn, NATO officials have said there is no evidence that has happened and that it appears the military build-up is continuing. After rallying yesterday, European equities have oscillated between positive and negative territory and are mostly flat overall this morning. UK inflation was reported at the highest year-on-year level in 30 years, affirming market views of aggressive hiking by the BoE this year. The ECB's Schnabel warned that the risk of acting too late has increased, and council member Kazaksis said that the ECB is likely to lift interest rates this year. Despite the continued geopolitical uncertainty, the ruble (+0.5%) continued its appreciation for the third straight day, while other emerging market currencies are mixed on the day.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
2/16/22 8:11 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4471	1.6	-1	-4	14	-6
Eurostoxx 50		4140	-0.1	-2	-3	11	-4
Nikkei 225		27460	2.2	1	-3	-9	-5
MSCI EM		49	2.2	1	-1	-15	1
Yields and Spreads				bps			
US 10y Yield		2.03	-1.2	9	25	72	52
Germany 10y Yield		0.30	-1.0	9	34	65	48
EMBIG Sovereign Spread		381	-8	0	-1	41	14
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		53.7	0.1	0	1	-7	2
Dollar index, (+) = $ appreciation		95.9	-0.1	0	1	6	0
Brent Crude Oil ($/barrel)		94.7	1.5	3	10	49	22
VIX Index (%, change in pp)		25.9	0.2	6	7	4	9

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

Mature Markets

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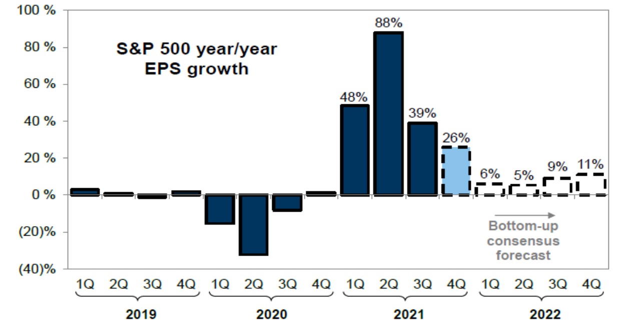
United States

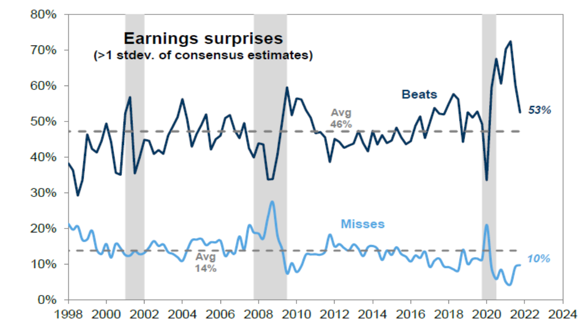
Stocks rallied while safe haven assets retreated on easing geopolitical tensions. Russia signaled for a diplomatic solution and announced a partial troop pullback near the Ukraine border. Western officials expressed "cautious optimism", though had yet to see any signs of a reduced Russian presence. US PPI increased 1% m/m (9.7% y/y) in January, the largest increase in 8 months while the consensus forecast was for 0.5% m/m. Core measures were similarly strong, up 0.9% m/m (6.3% y/y). Based on the CPI and PPI reports, the January core PCE inflation is expected to reach 5.2% y/y. Despite the larger than expected headline number, market reaction was rather muted. Instead, investors cheered on the progress over Ukraine while some market participants argued that heightened inflation is already priced in given the aggressive repricing in the front end of the curve. Equity markets snapped a 3-day drop with NASDAQ outperforming. The Treasury curve steepened, with 2-year yields little changed while long bond yields rose 7 bps, entirely driven by real rates. Oil prices slumped 3.5% along with weakening in other safe haven assets (gold, Japanese yen, and Swiss franc).

This morning, retail sales for January were reported much stronger than expected. Purchases rose 3.8% m/m compared to a forecast 2.0%. Ex-auto and gas also rose 3.8% m/m compared to 1.0% expected. December's headline number was revised to -2.5% from -1.9% initially. While treasury yields rose immediately upon the release, they quickly fell again with the 10-year now 2 bps lower on the day.

Corporate earnings remain strong but are normalizing towards pre-pandemic trend. With around 80% of S&P 500 market cap reported, Q4 EPS growth is running at 26% y/y, above the expected 20% y/y at the start of the earnings season. Aggregate EPS growth is boosted by revenue growth and near-record profit margins. Over half of the companies delivered meaningful earnings beat, which is below recent averages of 65% since 2020Q2 but above long-term averages.

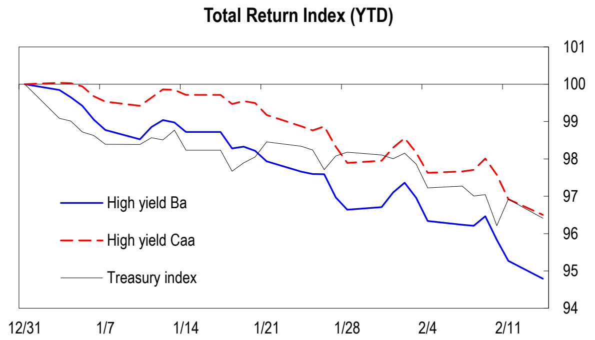


Source: FactSet, Goldman Sachs Global Investment Research



Source: Goldman Sachs Global Investment Research

Junk bonds have outperformed higher quality credit as interest rate risks outweighs credit risks. The investment grade corporate bond index has lost 5.5% so far this year, larger than the 4.5% loss in the high yield index. Within high yield, junk bonds (-3.5%) outperformed Ba (-5.2%) and B (-3.7%). The YTD return for junk bonds is on par with US Treasuries. The lowest quality credit tends to be less driven by interest rate fluctuations, and more related to underlying fundamentals of the company and the overall economy. Another factor is the outflows from credit funds. When mutual funds or ETFs experience outflows, fund managers must sell some of their holdings to pay back investors. Higher rated credit, such as BBs, are generally easier to offload.



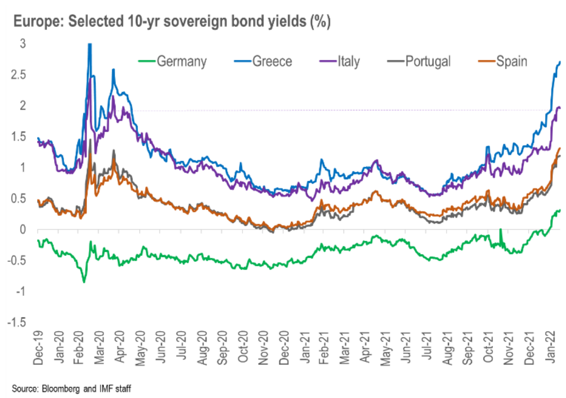
The SEC is warning investors about risks of accounts that pay interest on crypto asset deposits. In an investor bulletin, the SEC said companies offering such accounts do not provide investors with the same protections as banks and credit unions, and such crypto assets are not currently insured. Meanwhile, the SEC announced charges against crypto lending platform BlockFi, on its' failure to register as investment company, failure to register its BlockFi Interest Accounts as securities, as well as materially false and misleading statement around its collateral practices. The firm agreed to pay $100mn in penalties, cease sales of its unregistered lending product and fulfill necessary registrations.

Eurozone

European equities were oscillating between gains and losses this morning with the STOXX 600 Europe index little changed. Investors are reportedly becoming more cautious on the outlook for European equities. Bloomberg reports that the proportion of investors seeing a 5% or larger increase in the next year has decreased to 57% from 81%, based on a monthly European fund manager survey by Bank of America.

European bond yields were marginally lower (10-yr bund yield -1 bps) while peripheral spreads were mixed – Italian spreads widened slightly while Spain and Portugal narrowed (-1 bps). Italian 10-yr yields increased back to levels last seen in May 2020 as investors brace for the ECB to stop net asset purchases.

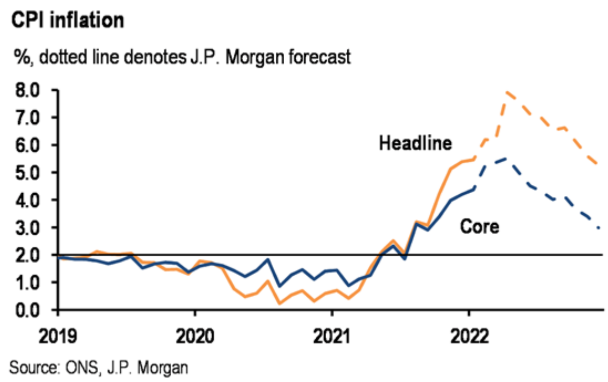
Yesterday ECB's Governing Council member Francois Villeroy de Galhau said that the pace of the reduction of net bond purchases could be accelerated and possibly be ended in 3Q2022, without triggering a rise in interest rates soon thereafter. The ECB currently foresees that PEPP purchases will end in March, while APP purchases will amount to €40 billion per month in the second quarter and €20 billion from October onwards. Separately, ECB executive board member Isabel Schnabel noted that it looks increasingly unlikely that inflation will ease below the 2% target by year-end, as previously expected, warning that the risk of acting too late has increased. Schnabel also noted that in a growing economy rising yields are not a major concern.



The euro (+0.2%) appreciated as markets became more optimistic about a diplomatic resolution to geopolitical tensions. Contacts note that the limited reaction in the euro following comments from the ECB's Villeroy reflects the high conviction call by the market around ECB tightening by the end of the year.

On the data front, **eurozone industrial production (+1.6% y/y) surprised on the upside (consensus -0.5% from -1.5%). GDP data in Norway surprised slightly to the upside**, with analysts seeing the data release as supportive of another interest rate hike in March.

United Kingdom



UK inflation surprised on the upside in January, reaching a 30-year high of +5.5% y/y, mainly driven by clothing and footwear. Expectations were for inflation to remain unchanged at 5.4%. Core CPI inflation increased to +4.4% y/y, slightly above consensus expectations of +4.3%y/y. Analysts at JPMorgan now see inflation peaking at 7.9% in April. Higher inflation highlights the cost-of-living crisis, with a 54% increase in energy bills and higher taxes due in April. Contacts note that the upside inflation surprise reinforces aggressive bets on BoE tightening however, it is uncertain if the surprise could push the BoE into hiking by 50bps in March. Markets are already pricing in the benchmark rate reaching 2% this year from the current 0.5%, which includes a 50 bps move at one of the two upcoming meetings. The pound appreciated (+0.2%) this morning, with some contacts seeing continued support to the currency in the near term.

Japan

Governor Kuroda stated on Tuesday the Bank of Japan (BOJ) will buy as many bonds as needed to control Japan's yield curve appropriately. BOJ isn't considering changing its 0.25% range around a zero 10-year yield target for now and does not see the need to consider an exit policy or adjusting interest rates now given low inflation, Bloomberg quoted. Kuroda stated, however, that too low super-long yields could have an adverse effect on pension funds. The central bank kept planned purchase amounts for super-long bonds unchanged at Wednesday's regular market operations. Yields on 30-year surged this year to above 93bps. The gap between Japan's benchmark 10-year bond yield and its 30-year equivalent has widened to a three-year high, climbing more than 10 basis points in a little over two weeks. Equities rallied 1.7%, and the Japanese yen and 10-year yields were broadly unchanged.

Emerging Markets

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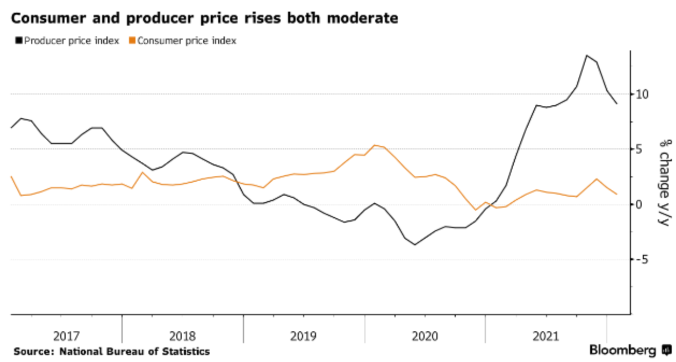
Asian equities gained 1.5% on net. The Philippines (+2%) clocked the greatest gains. Asian currencies mostly appreciated, Indian rupee (+0.4%) and Indonesian rupiah (+0.3%) outperformed. **India**'s central bank reiterated a strong warning regarding over cryptocurrency trading, which exploded since 2020, stating that the digital coins threaten "financial sovereignty" and "undermine financial integrity" of a country given that there are no underlying cash flows. Earlier this year, the Ministry of Finance established a 30% tax on income from virtual assets. 10-year yields were mixed, with the largest climbs seen in Philippines (+12.4 bps) follow by Hong Kong SAR (+4.5 bps). In Philippines, the government on Tuesday raised an initial 121 bn pesos ($2.35 bn) in an auction of five-year retail treasury bonds targeted at individual investors, with the coupon rate fixed at 4.875%. According to Reuters, retail treasury bonds now account for about 30% of the government's outstanding government securities, with last year's two issues raising more than 830 bn pesos. **EMEA equities gained in quiet trading** even as U.S. president Biden warned that the threat of a Russian invasion of Ukraine remains. Russian equities (+1.3%) are higher with gains of 0.5-1% in other markets. Currencies generally gained. The Hungarian forint (-0.5%) fell after the EU's Court of Justice dismissed challenges by Hungary and Poland against the so-called conditionality mechanism. Ukraine's short-term U.S. dollar bond due Sep 2023 rose another 2 points to 95**. Latin American equity markets** were higher on Tuesday. Mexico led the gains (+1.7%), followed by Brazil and Chile (both +0.8%). Local currencies were mixed. The Colombian peso gained 1.5% and the Brazilian real strengthened 1.0%, while currencies in other countries were little changed. 10-year government bond yields dropped 20 bps in Brazil.

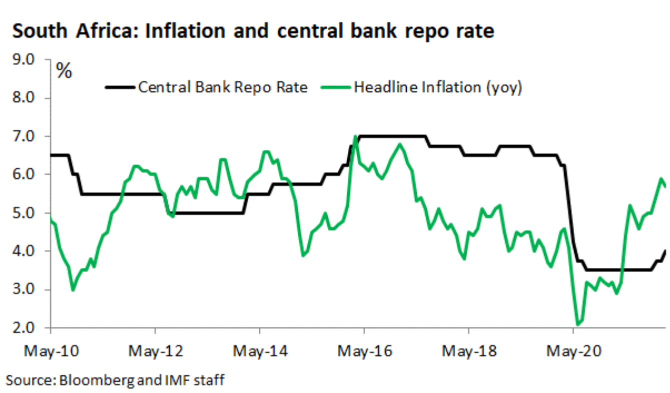
China

China's central bank eyes 2022 growth return to potential, pledges continued support. Governor Yi said in a speech that accommodative monetary policy will be kept "flexible and appropriate", and that support will be boosted for "key areas" and "weak links" in the economy. Also, Yi said uncertain internal and external conditions will require further counter-cyclical adjustments. Separately, **China's State Council promised additional assistance to small firms.** Tax deductions for equipment purchases and expanded eligibility criteria for a local tax and fee reduction program were among future measures revealed, according to Bloomberg. Meanwhile, **inflation measures cooled more than expected in January**. Consumer inflation fell to 0.9% y/y (consensus: 1%, previous: 1.5%), while producer price inflation (PPI) moderated to 9.1% y/y (consensus: 9.5%, previous: 10.3%). Some analysts attributed lower inflation readings to softened demand and reduced supply-side constraints, with further PPI declines expected ahead on eased commodity prices. Equities firmed (Shanghai: +0.6%, Shenzhen: +0.6%), the Renminbi was little changed, 10-year yields slipped 1 bps.



South Africa

Inflation decelerated to 5.7% y/y from 5.9% y/y, as expected, and retail sales gained a better-than-expected 1.5% m/m. 10-yr bond yields fell 9 bps to 9.52% and the rand (+0.3%) edged higher headline, in December.



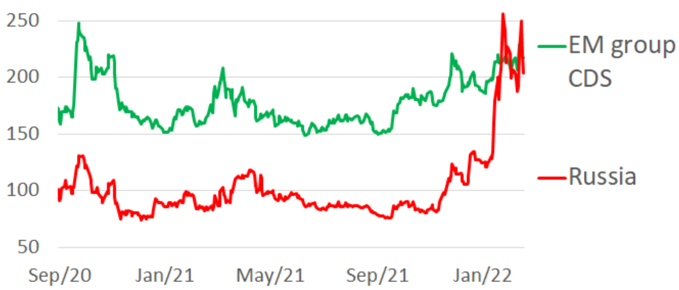
Hungary and Poland

The EU's Court of Justice (ECJ) dismissed challenges by Hungary and Poland against the so-called conditionality mechanism, judging that the legislation is fully in line with EU laws. The Hungarian forint (-0.4%) traded lower but the Polish zloty (+0.2%) rose. The conditionality mechanism makes the receipt of financing from the Union budget subject to the respect for the principles of the rule of law by member states. The European commission's concerns over the rule of law in Hungary and Poland led it to withhold pandemic stimulus to Poland and Hungary. Estimates are that Poland could lose more than €130 bn euros from the EU's 7-yr budget while Hungary could lose more than €40 bn. This final ECJ ruling was in line with expectations and cannot be appealed. Equities in Hungary (+0.9%) and Poland (+0.5%) were higher**.**

Russia

Russian equities (+1.3%) and the ruble (+0.6%) are higher as markets gradually price out geopolitical risks. U.S. President Biden warned that it remains possible that Russia will invade Ukraine because Russian troops remain in a "threatening position." Contacts generally believe that the risks of escalation peaked over the weekend and see a lower risks of further escalation in coming months but some plan to only gradually reduce hedges, as can be seen in still relatively wide levels on Russian 5-yr CDS spreads (at 203 bps compared to 120 bps at the start of the year).

EM: 5-yr Credit Default Swaps spreads (bps)



Source: Bloomberg and IMF

Colombia

Colombia's economy expanded 10.8% y/y in Q421, significantly exceeding market expectations of 9.3%. For the full year, the economy grew 10.6% in 2021, the fastest pace in more than a century. The central bank estimated GDP has returned to pre-pandemic levels. Analysts expected the economy to grow 4% this year, outperforming most LatAm peers. Colombian risky assets saw gains yesterday, as the peso appreciated 1.5% against the dollar and the domestic equities rose 0.4%.

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Global Financial Indicators

Last updated: 2/16/22 8:11 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		4467	1.6	-3	-4	14	-6
Europe		4140	-0.1	-2	-3	11	-4
Japan		27460	2.2	1	-3	-9	-5
China		4618	0.4	-1	-3	-20	-7
Asia Ex Japan		82	2.1	1	-2	-19	0
Emerging Markets		49	2.2	1	-1	-15	1
Interest Rates					basis points		
US 10y Yield		2.03	-1.2	9	25	72	52
Germany 10y Yield		0.30	-1.0	9	34	65	48
Japan 10y Yield		0.22	-0.3	1	7	13	15
UK 10y Yield		1.55	-3.0	12	40	93	58
Credit Spreads					basis points		
US Investment Grade		131	0.2	4	16	43	19
US High Yield		403	0.8	25	64	60	65
Europe IG		65	-0.8	3	13	18	17
Europe HY		317	-6.8	13	58	74	75
Exchange Rates					%		
USD/Majors		95.90	-0.1	0	1	6	0
EUR/USD		1.14	0.1	0	0	-6	0
USD/JPY		115.7	0.1	0	1	9	1
EM/USD		53.7	0.1	0	1	-7	2
Commodities					%		
Brent Crude Oil ($/barrel)		95	1.5	3	10	49	22
Industrials Metals (index)		186	0.6	-1	5	31	8
Agriculture (index)		66	0.4	-1	8	29	9
Implied Volatility					%		
VIX Index (%, change in pp)		25.9	0.2	5.9	6.7	4.4	8.7
US 10y Swaption Volatility		92.3	0.1	11.0	11.3	18.9	13.3
Global FX Volatility		7.6	0.0	0.3	0.5	0.4	0.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		239	-0.4	14	81	127	88
Italy		165	-0.2	11	33	73	30
Portugal		86	-1.6	7	26	33	22
Spain		99	-0.8	14	31	35	25

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

Emerging Market Financial Indicators

Last updated: 2/16/2022 8:12 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		6.34	0.0	0.4	0	2	0		2.8	-1.6	6	-1	-52	-3
Indonesia		14256	0.3	0.7	0	-2	0		6.5	0.5	3	13	23	13
India		75	0.3	-0.4	-1	-3	-1		6.3	0.0	0	9	75	0
Philippines		51	0.2	0.1	0	-6	-1		5.0	0.0	25	48	173	50
Thailand		32	0.1	1.1	2	-7	3		2.2	1.0	1	8	97	37
Malaysia		4.18	0.0	0.0	0	-4	0		3.7	-1.6	-2	4	73	9
Argentina		107	-0.1	-0.7	-2	-17	-4		48.9	-119.5	-97	57	414	-170
Brazil		5.17	0.0	1.3	7	4	8		11.6	-2.7	1	5	343	91
Chile		800	0.3	1.7	3	-10	7		6.0	0.0	8	14	313	59
Colombia		3954	-0.1	-0.4	2	-11	3		8.0	0.0	37	65	349	154
Mexico		20.38	0.1	0.5	0	-1	1		7.9	-0.3	26	27	214	36
Peru		3.8	-0.1	0.9	1	-4	5		6.1	0.2	4	-2	222	19
Uruguay		43	0.0	0.4	3	-1	4		8.2	-1.0	-31	-47	111	-54
Hungary		313	-0.4	-1.2	0	-5	4		4.8	4.0	20	7	259	30
Poland		3.95	0.2	-0.5	0	-6	2		4.0	-0.8	8	15	243	48
Romania		4.3	0.0	-0.5	0	-7	0		5.2	-0.1	10	16	282	35
Russia		75.1	0.5	-0.4	2	-2	0		9.7	-19.5	45	-7	300	96
South Africa		15.1	-0.2	0.5	2	-3	5		7.6	1.0	-8	-19	62	12
Turkey		13.60	0.0	-0.5	-1	-49	-2		21.8	-7.0	-28	-213	869	-248
US (DXY; 5y UST)		96	-0.1	0.4	1	6	0		1.92	-1.7	11	37	135	66

	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		4618	0.4	-1	-3	-20	-7		205	4	7	-19	2
Indonesia		6850	0.6	0	3	10	4		179	-4	7	6	14
India		57997	-0.3	-1	-5	12	0		155	4	19	0	23
Philippines		7453	2.0	-1	3	7	5		126	3	22	33	25
Malaysia		1603	0.2	3	4	0	2		128	4	11	-7	11
Argentina		88043	0.3	0	3	71	5		1760	-5	-114	321	80
Brazil		114828	0.8	2	7	-4	10		316	3	-3	57	5
Chile		4656	0.3	1	4	0	8		155	-3	9	18	15
Colombia		1487	0.4	-1	4	9	5		358	1	14	144	10
Mexico		53211	1.7	2	-1	19	0		351	6	9	10	19
Peru		24229	2.2	3	3	7	15		174	1	19	47	24
Hungary		51707	0.8	-2	-2	15	2		145	7	26	8	21
Poland		67618	0.1	-1	-7	14	-2		6	-2	-9	-25	-26
Romania		13449	0.5	0	-2	28	3		207	-8	15	20	14
Russia		3641	1.1	0	1	4	-4		245	1	30	72	68
South Africa		76435	0.8	0	2	14	4		377	3	18	17	22
Turkey		2054	0.8	1	-1	33	11		533	-20	-26	112	-45
Ukraine		519	0.0	0	-1	0	-1		905	71	-61	422	146
EM total		49	0.4	1	-1	-15	1		413	-1	3	75	26

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

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