



- Rising terminal rates may support cash as an investment alternative ([link](#))
- HY bond issuance continues strong, despite fading rally ([link](#))
- Eurozone yields and terminal rates jump on hawkish ECB comments ([link](#))
- UK terminal rate estimates rise after retail sales surprise ([link](#))
- People's Bank of China injected liquidity to ease interbank funding pressure ([link](#))
- Central bank of Türkiye expected to cut policy rate by 100bp next week ([link](#))

[Mature Markets](#)




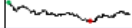



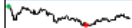

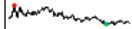

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## Soaring hawks send investors scurrying

**Risk sentiment is lower as central bank officials in advanced economies signaled rate hikes have further to go to contain inflation pressures.** Comments by Cleveland Fed president Mester and St. Louis Fed president Bullard arguing for 50bp rate hikes pushed up US rate expectations for the next year. While markets still price in 25 bp for the March meeting, the odds of a 50 bp hike have increased. Looking further out, the end-of-year implied Fed funds rate has risen by over 15 bp this week to 5.1%. Similarly in Europe, statements from ECB board member Schnabel that investors are underestimating the risk of persistent inflation sent yields higher. Likewise in the UK, the implied terminal rate for the Bank of England jumped 10 bp after a stronger than expected retail sales report.

Key Global Financial Indicators

Last updated: 2/17/23 8:23 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	
S&P 500		4090	-1.4	0	2	-7	7	-3
Eurostoxx 50		4265	-0.8	2	2	4	12	7
Nikkei 225		27513	-0.7	-1	4	1	5	4
MSCI EM		40	0.0	-1	-2	-18	6	-15
<b>Yields and Spreads</b>			bps					
US 10y Yield		3.89	3.1	16	34	193	2	190
Germany 10y Yield		2.49	1.4	13	40	226	-8	226
EMBIG Sovereign Spread		443	-2	7	-8	62	-9	30
<b>FX / Commodities / Volatility</b>			%					
EM FX vs. USD, (+) = appreciation		50.4	0.0	0	-1	-6	1	-5
Dollar index, (+) = \$ appreciation		104.5	0.6	1	2	9	1	9
Brent Crude Oil (\$/barrel)		82.8	-2.7	-4	-4	-11	-4	-14
VIX Index (% change in pp)		20.8	0.6	0	1	-7	-1	-10

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

**Cash could re-emerge as an investment alternative as short-term rates correct.** The week has been ripe with macroeconomic data confirming a remarkably resilient economy, despite historically fast monetary policy rate hikes, and persistent inflationary pressures. Rate markets corrected expectations on the path of policy rates to not only align but surpass the Federal Reserve guidance. With a flatter curve, credit and duration risk taking incentives will likely reset lower, not least because of the re-emergence of cash as an investment alternative. Goldman Sachs analysis show that this is particularly the case for the high-end of the Investment Grade (IG) quality spectrum, where the yield pick-up offered by A-rated bonds over the 3-month Treasury bills (a proxy for cash) has almost vanished.

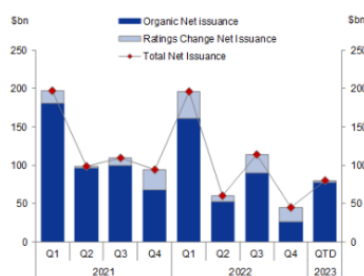
**Exhibit 2: A-rated bonds cannot compete with cash anymore**  
Yield pick-up of the A-rated corporate bond index over 3-month Treasury bills



Source: Bloomberg, Goldman Sachs Global Investment Research

**HY bond issuance continues strong, despite fading rally.** US HY bond net issuance rebounded into positive territory following last year's historic contraction, in line with market expectations. Should the pace hold, this quarter could mark the first quarter of positive overall net issuance since the second quarter of 2021. An increased likelihood of a no-landing scenario, underpinned by a wave of robust macroeconomic data, can support this outcome, according to some analysts. However, growing uncertainty over the terminal policy rate may weaken the dynamics according to others. HY bond funds saw outflows last week, and HY bonds are headed towards their biggest weekly loss in more than three months. Despite the fading rally, issuance so far continues.

**Exhibit 9: USD HY net supply flips back to positive**  
Quarterly net issuance in the USD IG

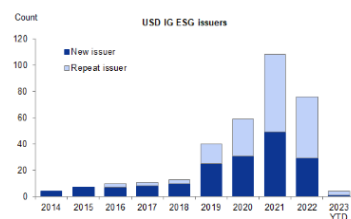


Source: Bloomberg, Goldman Sachs Global Investment Research

**First time ESG issuers face shrinking premia.** Since 2019, repeat issuers in the IG ESG market have accounted for a growing share of primary market activity in the US. Growing repeated issuance suggests that the share of ESG related debt within the capital structures of firms is also likely to grow. Although this shift maybe occurring for several reasons, some of them largely technical (you can be a repeat issuer several times, but only be a first-time issuer once), Goldman Sachs analysts suggest that the “greenium”—the premium to green issuance—is likely gone for first-time ESG issuers on average, while repeated issuers still enjoy economies of scale, such as lower entry costs, to the market.

**Exhibit 2 : For the first time in 2022, the number of ESG repeat issuers outpaced first-time issuers in the USD IG market**

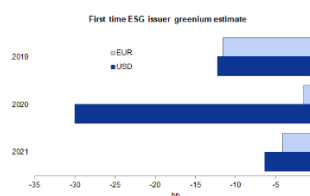
The number of USD IG unique ESG primary market issuers, by type; ESG issuance includes Green, Social, Sustainability and Sustainability-linked issues



Source: Dealogic, Bloomberg, Goldman Sachs Global Investment Research

**Exhibit 5 : Even for first-time issuers, the greenium has vanished**

Estimated ESG borrower discount, or "greenium," for first time ESG issuers; regression model includes controls for Sector, Maturity, Rating and Seniority; Sustainability-linked bonds are excluded



Note: 2022 is excluded on account of the small sample size.

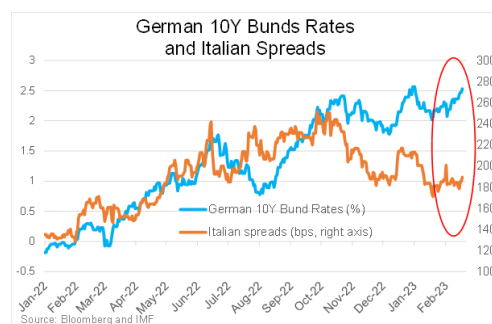
Source: Dealogic, iBoxx, Bloomberg, Goldman Sachs Global Investment Research

## Europe

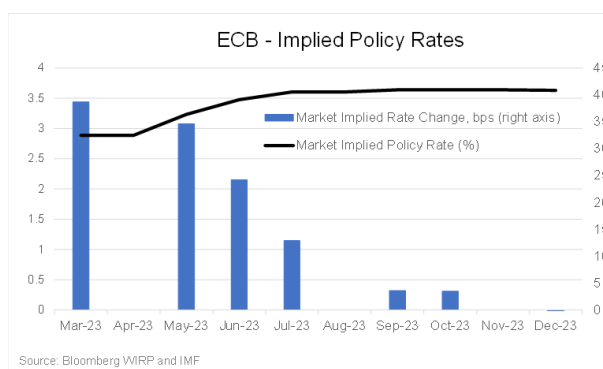
**European markets are down amid a global repricing of rates and hawkish statements from Fed and ECB officials yesterday and today.** In equity markets, the Stoxx Europe 600 is losing 0.6% and the UK FTSE 100 is down 0.2%. The euro and the British pound are weakening vs. the dollar (-0.4% to 1.06/\$ and -0.5% to 1.19 £/\$ respectively). Bond yields are up in the Eurozone, after increasing every day this week, with German 10y bund yields up 5 bp to 2.53%, close to their 2023 highs. Italian spreads are up 3 bp to 189 bp. In the UK, 10y gilt yields are up 6 bp to 3.56% after January retail sales surprised on the upside.

## Euro Area

**Bond yields are up in the Eurozone, with German 10y bund yields up 5 bp after Hawkish comments from ECB governing council member Isabel Schnabel.** Bund yields have increased every day this week, for a total of 17 bp, and are now close to their 2023 highs. In an interview with Bloomberg this morning, Schnabel said that investors risk underestimating the persistence of inflation and the policy response needed to bring it under control. She said that the economy's reaction to interest-rate increases may prove weaker than in prior episodes, and if that transpires, the ECB may have to act more forcefully. She said that a broad disinflation process had not even started, and that wage growth is a concern. She also signaled that a terminal rate of 3.5% may be too optimistic.

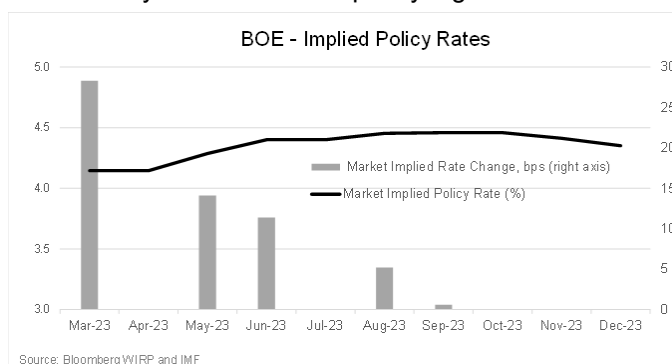


**Market pricing of the terminal rate has increased 6 bp to 3.64% by September,** as ECB policy makers have sent different signals on the path of monetary policy after the already flagged 50 bp hike in March. Earlier this week, ECB president Lagarde reaffirmed the ECB's intention to hike 50 bp in March in view of underlying inflation pressures. She said that the ECB will then evaluate the subsequent path of monetary policy. ECB governing council member Nagel dialed up the hawkish rhetoric yesterday and said that he does not think that interest rates are at a restrictive level that puts a brake on the economy yet. He warned that inflation can prove very persistent and added that he can't say exactly when the restrictive territory will be reached. At the other end of the spectrum, Greek governor Stournaras said yesterday that the quantum of the rate increase in March should be determined by the ECB's updated economic projections, which are due in March. Among usually more neutral ECB officials, ECB Chief Economist Philip Lane said that much of the impact on inflation of the recent increases in borrowing costs is yet to be felt, even though monetary policy actions are clearly tightening financial conditions, reducing credit volumes, and altering the behavior of households and firms. French governor Villeroy de Galhau will speak later today.



## United Kingdom

**Market pricing of the Bank of England's terminal rate jumped about 10 bp to 4.46% by September** as January retail sales were surprisingly stronger than expected. Retail sales increased 0.5% m/m vs. an expected drop of 0.3% m/m. This continues to paint a mixed picture of the economy, making the short and medium term outlooks very uncertain after inflation surprised on the downside, but labor data showed resilience earlier this week. Yesterday, BOE Chief economist Huw Pill echoed these concerns. He said that policy makers must remain vigilant against inflation but hinted the pace of rate hikes may slow, saying that there is a risk of "overtightening" if the pace over the past few months is maintained. He added that much of the impact of the tightening the BOE already implemented has yet to impact the economy but that it remains premature to declare victory over the unacceptably higher rates of inflation seen recently.



## Japan

**Japanese equities declined on global risk-off sentiment** after Fed officials signaled for a 50bp rate hike at the next FOMC meeting. The yen depreciated (-0.7%). Long-end JGB yields rose (10-year: +0.2 bp; 30-year: +1.4 bp), with the 10-year yield touching 0.501%. Markets continued reassessing the path of the Bank of Japan's (BOJ) monetary policy. About 70% of respondents in a survey said that the BOJ will take a tightening step by July, a jump from 54% last month.

## Emerging Markets

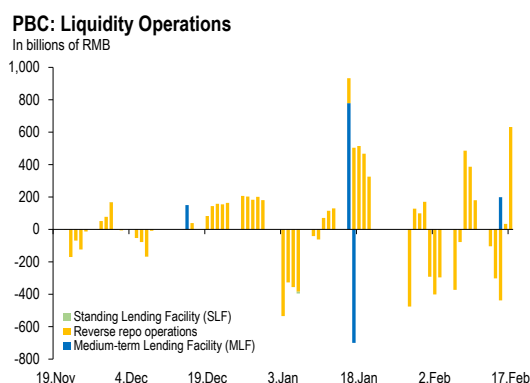
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**Asian market declined** today on the global risk-off sentiment after Fed officials signaled for a 50bp rate hike at the next FOMC meeting. Asian equities declined, falling 2.1% on net, led by Chinese (CSI 300: -1.4%) and Hong Kong (-1.3%) equities. Asian currencies also depreciated, led by the Korean won (-1.2%) and Thai baht (-0.7%). Long-end government bond yields increased, with 10-year yields rising in Singapore (+9 bp) and the Philippines (+4 bp). In Thailand, the economy contracted 1.5% q/q in 2022Q4, weaker than expected (consensus: +0.6%), leaving growth for 2022 at 2.6%. Thai equities declined (-0.7%). **EMEA markets are mixed** with equities trading mostly lower while currencies are weaker. South African equities (-0.6%) were underperforming and the rand weakened (-0.5%) against the dollar with contacts focused on the budget speech next week. The Hungarian forint underperformed (-0.6% against the euro). The Polish zloty depreciated against the euro (-0.3%), with ING analysts arguing that it is unlikely that the currency will

see a clear sell-off following news yesterday that an advisor to the European Court of Justice published a non-binding opinion on FX mortgages that is negative for banks. **Latin American stock markets rose Thursday**, while currencies were mixed. Stocks gained in Mexico (+1.1%), Chile (+0.9%), Colombia (+0.6%), Peru (+0.4%) and Brazil (+0.3%). The Colombian peso and the Brazilian real weakened by 0.14% and 0.05%, respectively. Other currencies appreciated against the dollar in Peru (+0.5%), Mexico (+0.3%), and Chile (+0.2%).

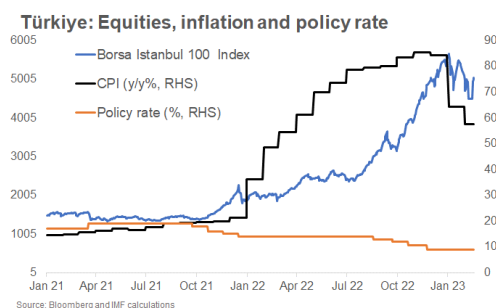
## China

**The People's Bank of China (PBC) injected liquidity to ease interbank funding pressure.** Today, the PBC injected 632 bn yuan (\$91.8 bn) via open market operations. The key interbank repo rate (DR007) still increased further to 2.25% (+12 bp), above the policy rate at 2%. However, spreads between exchange-traded and interbank repo rates remained limited, pointing to broader liquidity stress. Chinese equities declined (CSI 300: -1.4%; Hong Kong SAR-listed: -1.4%), with Chinese tech stocks leading the decline of Asian equities amid global risk-off sentiment. Domestic market sentiment was also dampened by the news about the disappearance of a high-profile banker, Bao Fan. While it is not uncommon for executives in China to become unreachable when they are involved in a government probe, Bao's disappearance fueled speculation of a renewed clampdown on China's financial industry. The RMB depreciated (-0.4%).



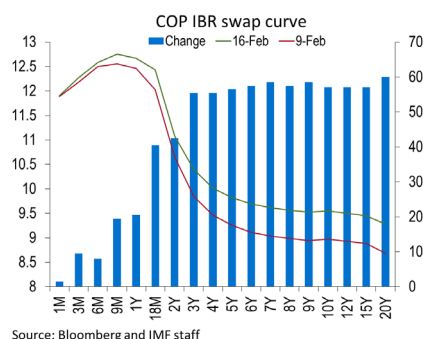
## Türkiye

**Analysts forecast a 100bp policy rate cut at the February MPC meeting and see a modest impact on economic growth and inflation as a result of the recent earthquake.** JPMorgan analysts highlight that the provinces impacted by the earthquake account for roughly 9% of Türkiye's GDP with those that are worst affected make up under 3% of GDP. As a result, the impact on economic activity is expected to be modest, and the overall impact on GDP growth could be negligible: Q1 growth is seen as weaker than previous forecasts, while a rebound is seen in Q2 onwards on the back of reconstruction. The impact on inflation is less certain, but the importance of the affected areas for the livestock sector could mean higher food prices, and, together with fiscal stimulus, could see year end inflation reach 45%, according to estimates (from 43% forecast previously). JPMorgan analysts expect the central bank to cut the policy rate by 100bp at the upcoming meeting in February, and expect that fiscal spending related to the earthquake could amount to 2% of GDP. Roughly half of fiscal expenditure is expected to be financed by administered price increases as well as tax hikes to be implemented in H2 2023. This morning Turkish equities gained (+0.3%) while local government bond yields fell (10-yr -28bp) with the central bank reportedly saying that it would purchase government bonds that pension funds would have to sell as part of measures that enable pension funds to increase equity holdings.



## Colombia

**The Colombian peso fell for the third consecutive day.** The depreciation is a combined effect of falling oil prices, strong US dollar and a worsening outlook of the Colombia economy. Colombia's 4Q GDP data released Wednesday showed 2.9% growth, lower than the consensus estimation of 3.8%. The central bank is accelerating the pace of rate hikes as Colombia has the highest inflation in Latin America (13.3%). The government is committing to maintain fiscal consolidation and macroeconomic stability. The COP IBR swap curve widened 7–9bp across the curve and it has continued widening for over a week.



## Brazil

**Brazil's December economic activity index rose 0.29%,** better than the 0.1% consensus estimation. It is the first positive reading since July 2022. The National Monetary Council announced no change to its inflation targets at 3.25% for 2023 and 3% for both 2024 and 2025 after today's market closed. The Ibovespa Index rose 0.3% during the day with increased volatility. Ibovespa futures fell more than 0.5% during the day, reflecting rising uncertainty.

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## Global Financial Indicators

2/17/23 8:23 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>			%				%	%
United States		4080	-1.4	0	2	-7	6	-3
Europe		4265	-0.8	2	2	4	12	7
Japan		27513	-0.7	-1	4	1	5	4
China		4035	-1.4	-2	-4	-13	4	-13
Asia Ex Japan		69	0.1	-2	-2	-16	6	-13
Emerging Markets		40	0.0	-1	-2	-18	6	-15
<b>Interest Rates</b>			basis points					
US 10y Yield		3.89	3.1	16	34	193	2	190
Germany 10y Yield		2.49	1.4	13	40	226	-8	226
Japan 10y Yield		0.51	0.2	1	-2	28	9	31
UK 10y Yield		3.54	4.2	15	22	208	-13	206
<b>Credit Spreads</b>			basis points					
US Investment Grade		144	1.0	1	-5	6	-15	1
US High Yield		449	0.4	7	11	39	-31	43
Europe IG		78	2.2	-1	-1	10	-13	6
Europe HY		406	13.5	-4	-5	76	-68	54
<b>Exchange Rates</b>			%					
USD/Majors		104.51	0.6	1	2	9	1	9
EUR/USD		1.06	-0.4	0	-1	-6	-1	-6
USD/JPY		134.7	0.6	3	5	17	3	17
EM/USD		50.4	0.0	0	-1	-6	1	-5
<b>Commodities</b>			%					
Brent Crude Oil (\$/barrel)		82.8	-2.7	-4	-4	2	-3	-2
Industrials Metals (index)		162	-1.0	-2	-7	-14	-2	-14
Agriculture (index)		70	0.3	0	2	4	2	0
<b>Implied Volatility</b>			%					
VIX Index (% change in pp)		20.8	0.6	0.2	1.4	-7.3	-0.9	-10.2
US 10y Swaption Volatility		113.0	2.3	3.2	-2.9	18.3	-12.7	18.7
Global FX Volatility		10.3	0.0	-0.3	-0.1	2.6	-0.4	2.8
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)					
Greece		183	3.2	-1	-20	-56	-22	-57
Italy		186	0.6	2	6	26	-28	15
Portugal		88	-0.4	1	-1	1	-14	-4
Spain		96	-0.1	1	-1	-2	-13	-7

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

Data source: Bloomberg.

## Emerging Market Financial Indicators

Last updated: 2/17/2023 8:24 AM	Exchange Rates								Local Currency Bond Yields (GBI EM)							
	Level		Change (in %)					Since	Level		Change (in basis points)					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
	vs. USD		(+) = EM appreciation						% p.a.							
China		6.88	-0.3	-0.9	-2	-8	0	-8		3.2	-0.5	0	-2	34	10	31
Indonesia		15210	-0.3	-0.5	0	-6	2	-6		6.7	4.4	7	-2	23	-20	24
India		83	-0.1	-0.4	-1	-9	0	-10		7.5	10.3	11	9	96.2	10	
Philippines		55	-0.3	-1.5	-1	-7	1	-7		5.9	2.5	0	-8	95	-8	95
Thailand		35	-0.7	-2.5	-5	-7	0	-7		2.8	5.0	6	22	53	13	54
Malaysia		4.43	-0.6	-2.2	-2	-6	-1	-6		3.8	-7.6	-2	-16	15	-24	14
Argentina		193	-0.2	-1.3	-6	-45	-8	-44		88.5	131.3	197	439	3992	25	4050
Brazil		5.22	0.0	-0.1	-2	-1	1	-4		13.4	-11.8	-17	92	177	85	191
Chile		794	-0.3	0.4	3	0	7	-1		5.5	3.0	8	38	-35	20	-38
Colombia		4935	-0.2	-2.7	-4	-20	-2	-21		9.6	4.3	47	11	185	-19	171
Mexico		18.56	-0.2	0.6	1	9	5	9		8.8	1.5	19	57	102	9	97
Peru		3.8	0.5	0.3	-1	-3	-1	-3		8.0	0.6	5	0	202	7	204
Uruguay		39	0.4	-0.6	1	9	1	8		9.8	9.3	-1	-73	168	-89	164
Hungary		364	-1.3	-0.4	1	-14	3	-12		8.8	25.0	88	117	413	-77	402
Poland		4.50	-0.6	-0.6	-3	-11	-3	-10		5.8	17.0	39	47	184	-36	188
Romania		4.6	-0.8	-0.7	-1	-6	0	-5		7.4	5.0	14	9	224	-28	226
Russia		73.9	1.4	-0.2	-7	3	0	11		10.4	-5.6	5	-139	36	-145	-77
South Africa		18.1	0.2	-1.5	-6	-17	-6	-16		9.2	9.5	37	42	170	3	161
Turkey		18.87	-0.1	-0.3	-1	-28	-1	-27		10.7	-29.0	-64	46	-1132	83	-1176
US (DXY, 5y UST)		105	0.6	0.9	2	9	1	9		4.11	3.5	19	49	227	10	220

	Equity Markets							Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				Since		Level		Change (in basis points)				Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	7 Days	30 Days	12 M	YTD	23-Feb-22
									basis points						
China		4035	-1.4	-2	-4	-13	4	-13		168	-6	-17	-37	-9	-40
Indonesia		6896	0.0	0	0	0	1	0		139	2	-29	-42	-1	-46
India		61003	-0.5	1	1	5	0	7		143	2	-7	-10	1	-11
Philippines		6779	-0.5	-1	-4	-9	3	-8		121	11	-13	-8	24	-16
Thailand		1652	-0.4	-1	-2	-4	-1	-3		0	0	0	0	0	0
Malaysia		1477	-0.5	0	-2	-8	-1	-7		99	-1	-4	-30	-1	-34
Argentina		257247	0.9	4	-1	186	27	182		2062	116	61	328	-143	325
Brazil		109313	0.3	1	-2	-4	0	-2		264	0	-9	-54	-10	-67
Chile		5430	0.9	1	5	19	3	24		131	-4	-15	-26	-1	-43
Colombia		1226	0.6	-2	-8	-18	-5	-19		394	19	21	30	22	2
Mexico		54016	1.1	2	2	2	11	5		359	1	-4	7	-22	-11
Peru		21970	0.4	-1	-4	-8	3	-6		178	-6	-10	3	-2	-12
Hungary		45533	-1.1	-1	-2	-11	4	-5		207	8	-34	59	-15	54
Poland		60513	-0.2	1	-1	-9	5	-4		69	-1	-28	61	-4	53
Romania		12342	-0.2	1	3	-6	6	-7		235	5	-33	28	-20	3
Russia		2167	0.6	-4	-1	-38	1	-30		3411	-577	938	3228	3234	2897
South Africa		79490	-0.9	1	0	4	9	6		367	10	6	-11	0	-22
Turkey		5019	0.2	11	-6	150	-9	149		510	6	11	-25	70	-53
Ukraine		507	0.0	0	0	-2	-2	-2		4465	166	299	3596	386	2992
EM total		40	-0.9	-1	-2	-18	6	-15		382	6	5	-30	7	-76

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

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