




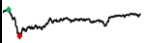
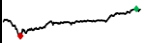
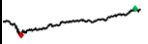

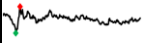



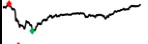

- Draghi to become Italian PM ([link](#))
- US Senate votes to begin budget process ([link](#))
- Markets are less responsive to pandemic related news as optimism grows ([link](#))
- Japan extends state of emergency to March 7 ([link](#))
- **GMM Special Feature: Emerging and Frontier Markets Issuance Monitor** (see attached email)

[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

## Global rally continues for third day

Market participants were greeted by a sea of green on their trading screens today as the February rally powered into its third day. Positive earnings surprises from companies and hopes for stronger stimulus measures boosted sentiment. Positive news stories on the AstraZeneca and Russian Sputnik vaccines also played a role. Italian equities are among the standouts as former ECB head Draghi agreed to take up the role of PM. Treasury and bund yields were up again as investors pulled back from safe haven buying and oil prices hit another one-year high. Improving labor market conditions in New Zealand appeared to put to rest worries that the central bank might adopt negative rates. The US ADP jobs report was much stronger than expected.

Key Global Financial Indicators

Last updated: 2/3/21 8:01 AM	Level Last 12m Latest	Change from Market Close				12 M	YTD
		1 Day	7 Days	30 Days			
<b>Equities</b>		%					%
S&P 500	 3826	1.4	-1	2		18	2
Eurostoxx 50	 3612	0.6	2	2		-1	2
Nikkei 225	 28647	1.0	0	4		25	4
MSCI EM	 55	1.3	-1	7		30	7
<b>Yields and Spreads</b>		bps					
US 10y Yield	 1.12	1.9	10	20		-41	20
Germany 10y Yield	 -0.48	1.3	7	9		-3	9
EMBIG Sovereign Spread	 347	-4	-10	-3		34	-3
<b>FX / Commodities / Volatility</b>		%					
EM FX vs. USD, (+) = appreciation	 57.5	0.1	1	-1		-4	-1
Dollar index, (+) = \$ appreciation	 91.2	0.0	1	1		-7	1
Brent Crude Oil (\$/barrel)	 58.0	1.0	4	12		7	12
VIX Index (% change in pp)	 24.7	-0.9	-13	2		7	2

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

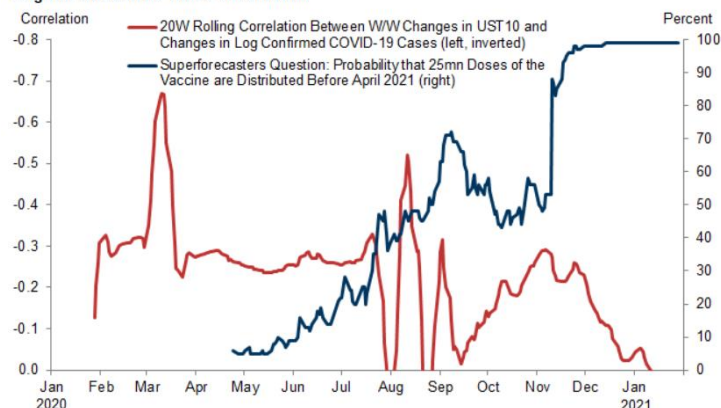
## United States

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**Optimism continued to prevail as markets extended the February rebound.** The US Senate voted 50-49 to begin the debate on the new budget, kickstarting the process for the President to go it alone with his own party without Republican support. Many analysts think the final package is likely to be closer to the \$1.9 tn of President Biden's proposal rather than the \$618 bn offered by a group of 10 Republican senators. Amazon and Google parent Alphabet both beat earnings forecasts and were up sharply in aftermarket trading immediately following the release (the news that CEO Jeff Bezos is stepping down did not appear to worry investors). US equities have rebounded so strongly that they are already within striking distance of analysts' year end average price target for the S&P 500. The average consensus level of 4074 from January 20 is just over 6% above the Tuesday close. **This morning's ADP jobs report was much stronger than expected at +174K versus the +70K consensus forecast.** Treasuries yields rose further in the immediate aftermath.

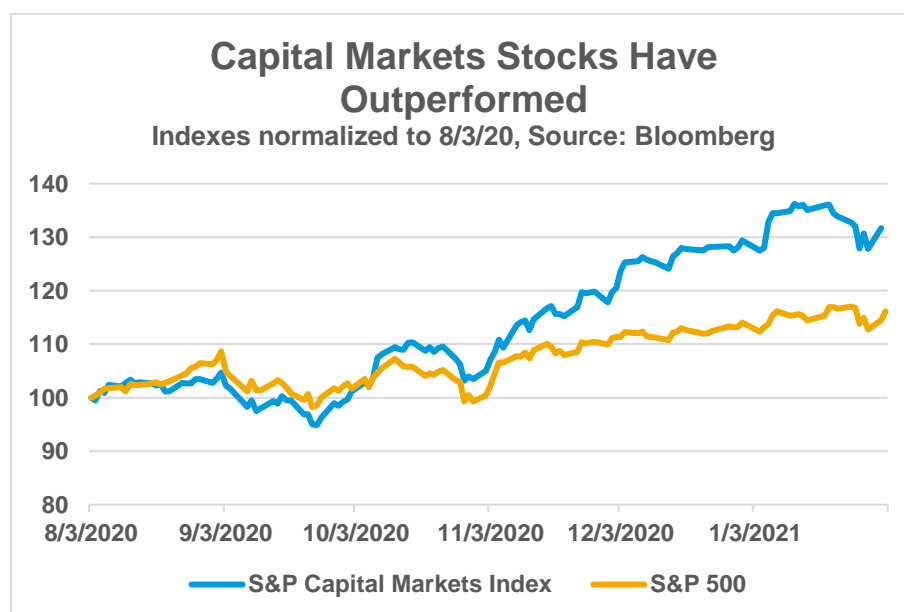
**Markets are becoming less responsive to news flow about the spread of the virus and economic data.** This reflects a steady improvement in economic and financial conditions since the most acute phases of the pandemic crisis, as well as growing market confidence that the health challenge will be resolved in the months ahead as the vaccine rollout gains momentum and the US population gets closer to herd immunity. Analysis by Goldman finds that the responsiveness of Treasury yields to new economic releases has fallen as low as 16% of the post-2000 average, while equity price responsiveness is down to 50% of the historical level. While this is a positive development, it does raise the question of market complacency. A setback to these rosy assumptions could spark a significant bout of volatility.

**Exhibit 2: Financial Markets Are Becoming Less Responsive to the Infection Newsflow, Due to the Brighter Outlook for Mass Vaccination**



Source: Good Judgment Inc, Goldman Sachs Global Investment Research

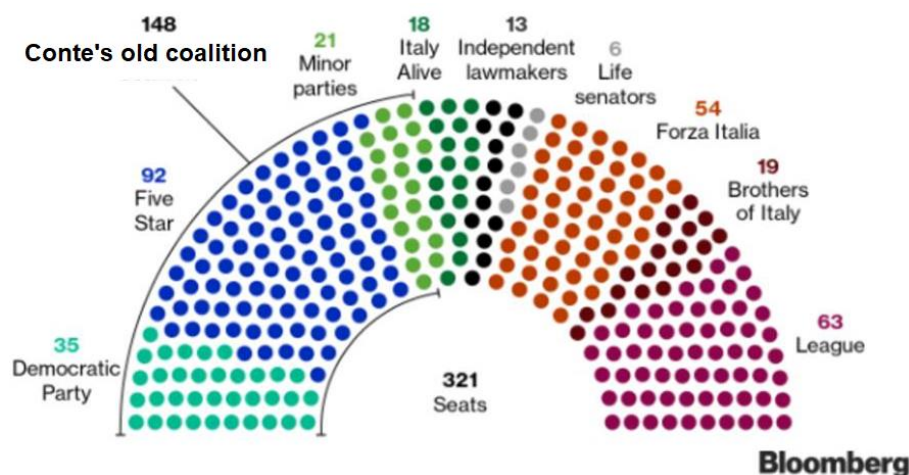
**The surge in trading volumes and IPOs this year should benefit companies that offer access to the capital markets.** The S&P Capital Markets index has significantly outperformed the S&P 500 over the past six months and is up 4% so far in 2020 compared to less than 2% for the broader index. The index contains not just banks but private equity firms such as Carlyle, mergers and acquisition boutiques such as Lazard, fund managers such as BlackRock and index providers such as MSCI. January saw well over \$400 bn in new bond and IPO issuance, while the recent spike in volatility at the end of January highlighted the surge in trading volumes.



## Europe

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According to media reports, **Italy's President Mattarella is expected to appoint Mario Draghi as premier-designate this afternoon**, thereby giving him a mandate to form Italy's new government. The move comes as the current Prime Minister Conte failed to secure a majority coalition agreement. Investors welcomed former ECB's governor nomination with **Italy-Germany 10-year bond spread narrowing to the lowest level since 2016**. While there is now a path to a technocratic government, some **analysts highlight that forming a majority coalition formation remains challenging** as the largest party in the parliament, the anti-establishment 5-Star movement, has ruled out Draghi's backing. An alternative would potentially require cooperation between the deeply divided center-left Democratic Party and far-right League.



European corporates continued to beat earnings estimates with firms ranging from industrial giant **Siemens to telecommunication provider Vodafone delivering a positive surprise in Q4**. Investors also looked through Europe's fifth largest banking group Santander's profit miss due to write-downs and provisions as the bank reported healthy underlying revenue growth.

**Eurozone inflation increased to above expected 0.9% yoy in January** (0.6% revised consensus estimate). Core inflation jumped to 1.4% yoy from 0.2% in December. Despite the large upside surprise, market reaction was muted as investors already anticipated a stronger print following country lever data out of Germany and France, but also due one-off nature of inflation spikes through factors such as German VAT cut reversal and broader seasonality disruptions. **ECB's Executive Board member Schnabel has also already discounted the data as having limited implications from monetary policy perspective.**



Source: Eurostat, Goldman Sachs Global Investment Research

## Other Mature Markets

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### Japan

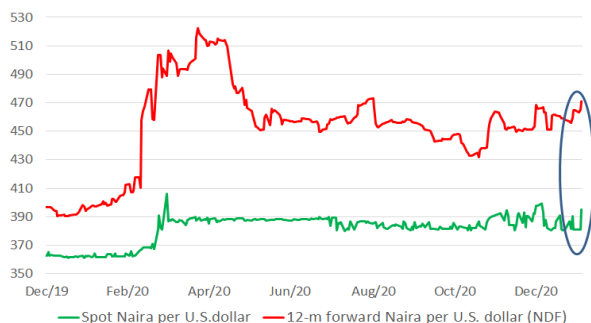
**The government extended the state of emergency by one month.** The state of emergency covering Tokyo and other major metropolitan areas will run until March 7. Analysts now expect the economy to contract by an annualized 2.5% q/q this quarter in contrast to their earlier expected expansion. **Bank of Japan Deputy Governor Wakatabe said that the policy review is not focused on tightening.** The exercise is to consider how the central bank could be nimble in conducting effective monetary easing while accounting for the costs. The comment came amid market speculations that the policy review due in March would result a wider fluctuation of government bond yields, which is perceived as policy tightening.

## Emerging Markets

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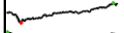
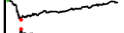
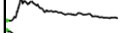


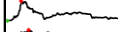



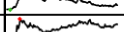
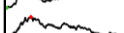


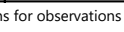
**Most markets joined in the global rally, although China was a notable exception as weak PMI data pushed stocks lower.** The Bank of Thailand stayed on hold at 0.5% as expected, while stating that it was prepared to additional policy tools beyond the policy rate. The Polish zloty (-0.2%) traded slightly below what is seen as a potential intervention level of 4.50 per euro ahead of today's central bank meeting. Local South African 10-yr yields fell to 5 bps to a 3-yr low of 8.48% following record demand at the weekly sale of government debt, and as economy-wide PMI data signal an expansion in January. In Mexico, credit to consumers and companies tightened further in December. The Nigeria naira fell 3.6% after authorities threatened to cut banking services to exporters who fail to repatriate U.S. dollars.

Nigeria: Spot currency and forwards



Source: Bloomberg and IMF staff

Key Emerging Market Financial Indicators

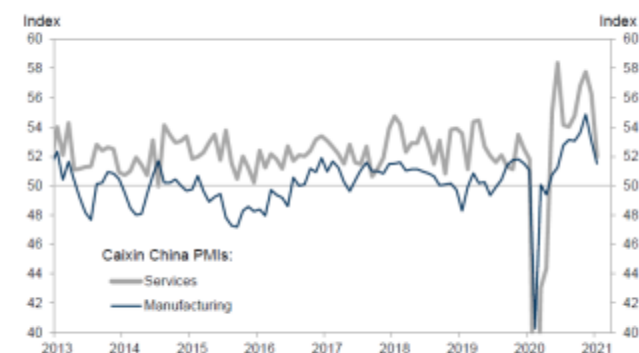
Last updated: 2/3/21 8:03 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		55.46	0.4	-1	7	30	7
MSCI Frontier Equities		29.06	-0.7	-2	3	-4	3
EMBIG Sovereign Spread (in bps)		347	-4	-10	-3	34	-3
EM FX vs. USD		57.49	0.0	1	-1	-4	-1
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.46	0.0	0	0	9	1
Indonesian Rupiah		14005	0.1	0	-1	-2	0
Indian Rupee		72.96	0.0	0	0	-2	0
Argentine Peso		87.80	-0.1	-1	-4	-31	-4
Brazil Real		5.35	0.2	1	-1	-21	-3
Mexican Peso		20.15	-0.1	1	-1	-7	-1
Russian Ruble		75.95	0.5	0	-2	-16	-3
South African Rand		14.93	0.2	2	-1	0	-2
Turkish Lira		7.18	0.1	3	3	-17	4
EM FX volatility		10.20	0.0	-0.2	-0.5	3.5	-0.5

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

## China

**The People's Bank of China (PBOC) withdrew liquidity as liquidity stress in money markets eased.** The PBOC drained liquidity of 80 bn yuan (\$12.4 bn) today as interbank repo rates further declined (overnight: -39 bps; 7-day: -14 bps). **The corporate bond market remains stable despite some recent defaults.** China Fortune, a developer, defaulted on its debt today, following the entry of HNA Group (one of China's global asset buyers) into bankruptcy restructuring last week. Spreads of corporate bonds have remained broadly stable over the past few weeks. **The Caixin services PMI weakened more-than-expected to 52.0 in January from 56.2 in December** (consensus: 55.5).

### Caixin services PMI fell in January



Source: Caixin

## List of GMM Contributors

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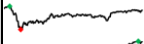
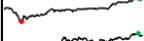

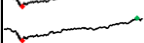
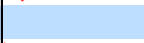

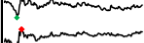

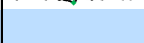


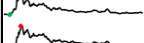
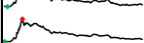
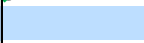





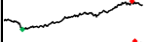

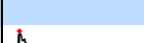
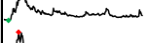
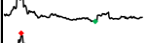

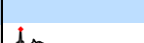


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## Global Financial Indicators

Last updated: 2/3/21 8:02 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3842	1.4	2	2	18	2
Europe		3612	0.6	2	2	-1	2
Japan		28647	1.0	0	4	25	4
China		3517	-0.5	-2	1	28	1
Asia Ex Japan		98	1.3	-1	9	40	9
Emerging Markets		55	1.3	-1	7	30	7
Interest Rates			basis points				
US 10y Yield		1.12	1.9	10	20	-41	20
Germany 10y Yield		-0.48	1.3	7	9	-3	9
Japan 10y Yield		0.06	0.4	1	4	12	4
UK 10y Yield		0.36	1.3	9	17	-15	17
Credit Spreads			basis points				
US Investment Grade		94	-1.0	-1	-1	-15	-1
US High Yield		369	-7.6	-4	-11	-77	-11
Europe IG		49	-1.1	-2	1	3	1
Europe HY		250	-7.8	-16	1	22	9
EMBIG Sovereign Spread		347	-4.2	-10	-3	34	-3
Exchange Rates			%				
USD/Majors		91.22	0.0	1	1	-7	1
EUR/USD		1.20	-0.3	-1	-2	9	-2
USD/JPY		105.1	-0.1	-1	-2	3	-2
EM/USD		57.5	0.1	1	-1	-4	-1
Commodities			%				
Brent Crude Oil (\$/barrel)		58	1.0	4	12	7	12
Industrials Metals (index)		133	0.4	-1	0	27	0
Agriculture (index)		50	-0.6	-1	4	27	4
Implied Volatility			%				
VIX Index (% change in pp)		24.7	-0.9	-12.6	1.9	6.7	1.9
US 10y Swaption Volatility		60.0	0.7	2.6	-2.7	-17.2	-0.1
Global FX Volatility		7.6	0.0	0.0	-0.5	2.0	-0.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		112	-4.4	-11	-8	-52	-8
Italy		106	-8.0	-14	-5	-33	-5
Portugal		52	-2.5	-5	-8	-20	-8
Spain		59	-1.8	-3	-3	-10	-3

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

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## Emerging Market Financial Indicators

Last updated: 2/3/2021 8:09 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		6.46	0.0	0.4	0	9	1		3.3	-0.6	2	3	27	3
Indonesia		14005	0.1	0.3	-1	-2	0		6.2	-3.1	-16	9	-75	9
India		73	0.0	-0.1	0	-2	0		6.2	6.4	17	28	-63	28
Philippines		48	0.1	0.1	0	6	0		3.5	-3.9	-10	-13	-63	-13
Thailand		30	-0.1	-0.2	0	3	0		1.4	3.3	5	9	-8	9
Malaysia		4.05	-0.1	-0.1	-1	2	-1		2.7	0.5	8	10	-48	10
Argentina		88	-0.1	-0.8	-4	-31	-4		50.0	-3.7	-40	-614	-832	-614
Brazil		5.35	0.2	1.2	-1	-21	-3		6.2	-8.5	-27	64	19	64
Chile		730	0.2	1.3	-4	8	-3		2.8	0.7	1	2	-65	2
Colombia		3532	-0.1	2.1	-2	-4	-3		5.1	-2.9	-3	4	-47	4
Mexico		20.15	-0.1	0.7	-1	-7	-1		5.6	-2.7	0	0	-111	0
Peru		3.6	0.2	0.3	0	-7	0		3.8	3.9	-1	21	-52	21
Uruguay		42	-0.1	-0.6	0	-11	0		7.2	-3.1	-4	-7	-317	-7
Hungary		296	-0.3	0.6	0	3	0		1.6	3.2	8	12	37	12
Poland		3.74	-0.5	0.5	-1	4	0		0.6	2.3	5	-2	-127	-2
Romania		4.1	-0.4	-0.8	-2	6	-2		2.3	0.0	-5	-45	-157	-45
Russia		75.9	0.5	-0.2	-2	-16	-3		6.0	1.7	3	26	-4	26
South Africa		14.9	0.2	2.3	-1	0	-2		9.5	-6.0	-16	-16	3	-16
Turkey		7.18	0.1	3.1	3	-17	4		13.3	7.2	8	23	342	23
US (DXY; 5y UST)		91	0.0	0.6	1	-7	1		0.45	1.1	4	9	-90	9

	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	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		5485	-0.3	-1	5	49	5		203	-2	1	-6	31	-5
Indonesia		6078	0.6	-1	2	3	2		172	-2	-9	-15	-7	-15
India		50256	0.9	6	5	26	5		157	0	2	6	21	6
Philippines		6859	-0.1	0	-4	-4	-4		95	-3	-4	-9	15	-10
Malaysia		1583	0.2	0	-3	4	-3		115	-3	0	5	3	5
Argentina		49687	0.2	0	-3	20	-3		1449	-3	4	80	-563	81
Brazil		118234	0.6	2	-1	3	-1		262	1	-20	12	36	12
Chile		4433	0.8	0	6	-3	6		133	-1	-13	-11	-17	-11
Colombia		1368	0.8	0	-5	-16	-5		217	0	-10	12	40	12
Mexico		43849	2.0	-3	0	-1	0		374	-1	-19	14	64	14
Peru		21452	-0.7	0	3	8	3		131	-1	-4	-1	9	-1
Hungary		44163	0.1	3	5	2	5		76	-1	-8	-20	-39	-20
Poland		57306	0.1	2	0	1	0		-15	-1	-3	-13	-57	-14
Romania		10400	0.1	1	6	4	6		197	-3	-7	-6	2	-6
Russia		3354	-0.2	0	2	9	2		167	2	-6	1	17	1
South Africa		63099	0.6	1	6	13	6		382	-1	-17	2	35	2
Turkey		1515	0.2	3	3	27	3		436	-3	-30	-9	68	-9
Ukraine		521	0.0	2	4	2	4		494	-6	-15	3	94	3
EM total		55	0.4	-1	7	30	7		421	0	17	-10	97	128

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