



- S&P 500 breaks the 5000-mark ([link](#))
- US corporate bond market sees largest inflows since 2020 ([link](#))
- Kenya's Eurobond reported to be priced today ([link](#))
- Bahrain's \$2 billion issuances across two-tranches met with strong demand ([link](#))
- Inflows to EM bond funds for the first time in over two months ([link](#))
- **Special Feature: The EU's Carbon Border Adjustment Mechanism and Potential Gaps in Carbon Pricing** (attached)

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## Equity market records broken; expectations for rate cuts largely intact

The S&P 500 index broke through the 5000-level last Friday, but is not the only equity index trading close to record highs. The EURO STOXX index is trading at a record high as well, and in Japan, the NIKKEI reached a new post-1980s high last week (but trading in Japan was closed today). While the market implied number of rate cuts by the end-of-2024 retraced somewhat over the past two weeks after Fed and ECB officials pushed back on expectations, four-to-five cuts remain priced in for the US—down from five at the start of the month—and five for the euro area. While equities in China have had a less stellar start of the (Gregorian calendar) year 2024, the CSI300 and CSI1000 indices went into the Lunar New Year on a positive note last week, with positive returns before the market closed for the holiday period. EPFR reported that in the week ending on February 7, China Equity Funds broke the weekly inflow record with over \$19 billion of inflows. This was driven by exchange traded fund (ETF) flows. Last Tuesday, Central Huijin, an investment arm of the country's sovereign wealth fund, reportedly announced that it would expand its purchases of ETFs.

Key Global Financial Indicators

Last updated: 2/12/24 8:09 AM	Level Last 12m Latest	Change from Market Close				YTD
		1 Day	7 Days	30 Days	12 M	
<b>Equities</b>		%				%
S&P 500	5027	0.6	1	5	23	5
Eurostoxx 50	4727	0.2	2	6	13	5
Nikkei 225	36897	0.1	2	4	33	10
MSCI EM	40	0.4	2	1	-2	-2
<b>Yields and Spreads</b>		bps				
US 10y Yield	4.15	-2.7	-1	21	42	27
Germany 10y Yield	2.34	-4.3	2	16	-3	32
EMBIG Sovereign Spread	390	0	-4	-22	-46	6
<b>FX / Commodities / Volatility</b>		%				
EM FX vs. USD, (+) = appreciation	46.9	0.1	0	-2	-7	-3
Dollar index, (+) = \$ appreciation	104.1	0.0	0	2	0	3
Brent Crude Oil (\$/barrel)	81.4	-1.0	4	4	-6	6
VIX Index (% change in pp)	13.4	0.5	0	1	-7	1

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

**In the week ahead, US CPI (Tue) and retail sales (Thu) will attract the attention of investors in the run-up to the March FOMC meeting.** Analysts expect January headline CPI to moderate to 0.2% m/m. In the UK, GDP growth (Thu), inflation (Wed), and job reports (Tue) will be released. The UK is likely to have entered a technical recession, posting a second quarterly drop in GDP growth. Elsewhere, data releases include growth data from Poland, Japan, and Colombia and inflation prints from Russia, Poland, India, and Argentina. On the monetary policy front, central banks in Russia and the Philippines are expected to hold.

## Mature Markets

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### United States

**The S&P500 index finished the week above 5000, supported by robust 4Q corporate earnings.** 80% of US S&P500 firms have reported Q4 earnings so far, and EPS growth for these firms is at 5% y/y, beating analysts' estimates. According to JP Morgan analysts, consumer discretionary, technology, and communication services have been robust at a sector level, while commodity and healthcare sectors have been weaker. Bank shares underperformed the overall index last Friday but managed to close the day higher. According to the Fed H8, bank deposits for the week ending January 31 increased from the previous week, even for small banks. Treasury yields were marginally higher across the yield curve. The CPI annual revisions by BLS Friday were uneventful: while the December headline CPI was revised to 0.2% from 0.3% m/m, and core CPI remained unchanged, confirming US inflation was on a downward trend. Bitcoin was up 11% for the week, supported by steady inflows and growing attention on the "halving" due in April.

Figure 3: S&P500 blended Q4 '23e EPS

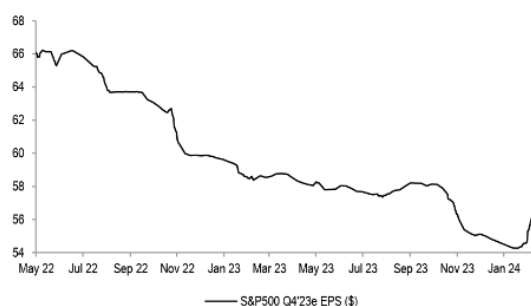
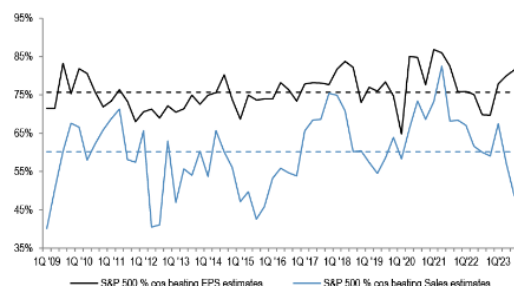
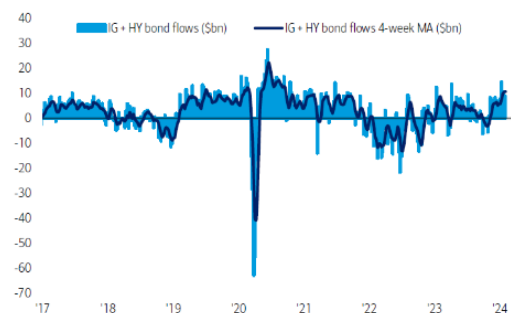


Figure 4: % of S&P500 companies beating quarterly EPS and sales estimates



**Corporate bond funds saw the largest inflow since Sep. 2020** on a four-week moving average basis, according to Bank of America analysts. Investors see that the delay in the US recession and re-accelerating growth leads to a slower credit downturn, assuming the Fed will successfully engineer a soft landing.

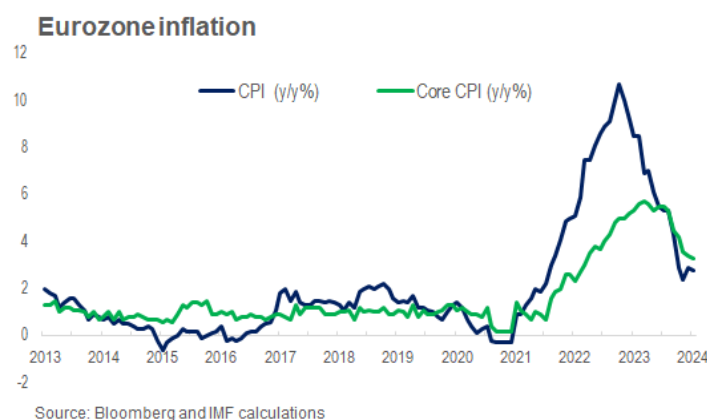
Chart 10: Largest 4-week inflows to IG & HY bonds since Sep'20  
IG & HY bond fund flows (weekly & 4-week moving average, \$bn)



## Euro Area

European equities opened higher with the Stoxx 600 index up +0.3%, led by gains in the real estate sector, while banking sector stocks were up (+0.4%). The euro was weaker (-0.1%) against the dollar trading at around 1.078. Euro area sovereign bond yields continue to trade in a narrow range with the 10-year bund yield trading at 2.37% and the spread of 10-year Italian government bonds over bunds marginally tighter at 156bps. **Elsewhere**, last Friday, Moody's downgraded Israel's rating one step to A2.

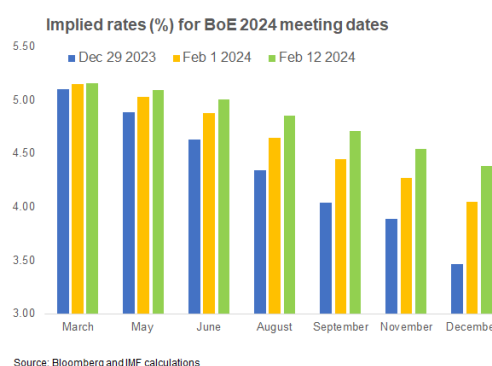
ECB Governing Council member Panetta said this weekend that "... the time for reversal of the monetary policy stance is fast approaching," noting that "disinflation is at an advanced stage, and progress towards the 2% target continues to be rapid." By contrast, Governing Council member de Cos remarked that the updated projections for growth and inflation due in March will be important for deciding on the timing of rate cuts.



**CRE exposures are manageable for most European banks**, according to analysts at Barclays. They believe that CRE exposures are mostly domestic, but note that "US CRE exposures are more notable for small German banks, Deutsche Bank and Santander". The analysts note that both Deutsche Pfandbriefbank and Aareal Bank are smaller, specialist CRE lending banks, and that they remain able to access the wholesale funding market and can also repo their covered bonds with both the ECB and BoE.

## United Kingdom

**Markets await key data and comments from Governor Bailey, who is due to speak later today.** Investors will have data on UK wages, inflation, and growth to digest this week. Average weekly earnings ex-bonuses are expected to show an increase by 6% for the three months to December, down from 6.5% previously. Meanwhile, January headline inflation data is expected to tick up to 4.1% y/y from 4.0% y/y in December. Last week, external MPC member Jonathan Haskell, who voted for an increase in the bank rate at the January MPC meeting, remarked that he would need to see more evidence that inflation risks are waning. Analysts at ING note that both wage growth and services inflation are likely to remain sticky. Today, UK equities opened a touch lower (-0.1%), and the pound was unchanged against the dollar at 1.26. Gilt yields were lower (-2bps) with the 10-year gilt yield trading at 4.07% this morning.



## Emerging Markets

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**EMEA equity markets were mostly trading higher.** Equities in Türkiye (+1.0%) and Czechia (+0.4%) outperformed. South African local currency bond yields were higher (10-year +9bps to 11.64%) ahead of the budget due later this month, with Bloomberg analysts highlighting South African's fiscal position as a key economic vulnerability. This morning the Hungarian forint was marginally weaker against the euro (-0.1% at 387.42/€), and other CEE currencies were mostly marginally stronger against the euro while the Romanian leu was little changed (at 4.97/€) ahead of the monetary policy decision tomorrow, where the benchmark rate is expected to be held at 7.0%. The central bank of Zambia to increase its policy rate by 100bps to 12% on Wednesday, while some contacts expect a smaller 50bps move.

**A number of Asian markets remain closed for the Lunar New Year holidays.** Indonesian equities outperformed, advancing by 0.9%, while equities in India (-1%), Australia (-0.4%) and New Zealand (-0.9%) were down. January headline inflation for India came in slightly higher than expected at 5.1% y/y versus 5.0% expected and 5.69% prior. Most Asian currencies were slightly stronger versus the US dollar. The Indonesian rupiah strengthened by 0.3%. The Philippine peso bucked the trend, weakening by 0.2% versus the US dollar since last week.

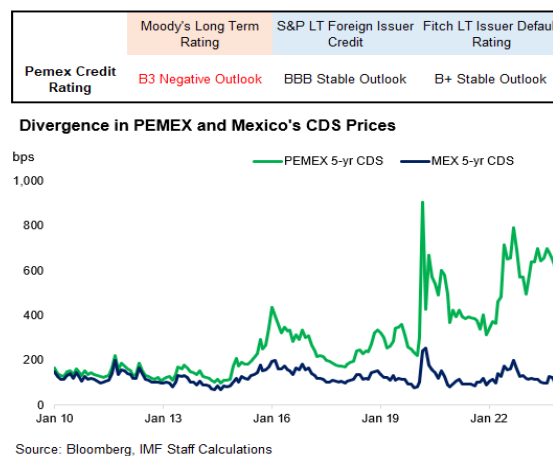
## Latin America

Regional currencies broadly appreciated against the US Dollar, led by the Brazilian Real (+0.86%) and Colombian Peso (+0.67%), after the release on inflation revisions. A notable exception was the Chilean Peso, which continued its underperformance, depreciating -0.49% against the US Dollar on the back of dovish monetary policy and weak economic activity. Looking ahead, Chile's central bank will publish its Jan 31's MPC minutes on Thursday, which should reveal more insights behind its split decision to reaccelerate policy rate cut.

## Mexico

### Moody's downgraded Pemex credit rating by two notches to B3 while maintaining its negative outlook.

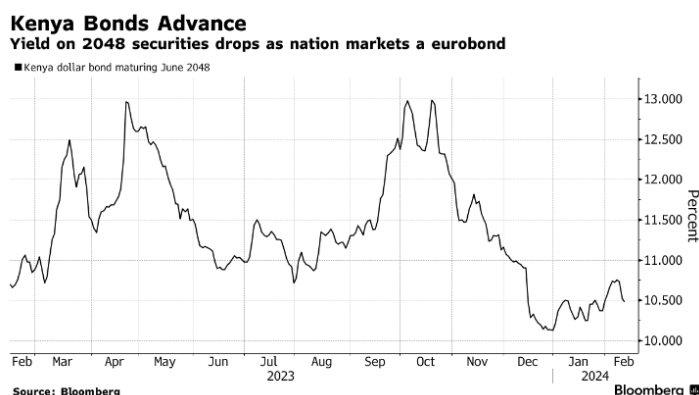
The rating agency said that Petroleos Mexicanos (Pemex) would be near default without Mexican government support and anticipate that Pemex will have to increase its reliance on external funding. The downgrade incorporates Pemex's weakening stand-alone credit quality and reflects Moody's assumptions for a probable shift in the government's willingness to support Pemex in the next few years. Moody's revising its assumption of government support to "High", from "Very High", citing constraining government's fiscal conditions alongside increasing company's expanding cash needs. Pemex's baseline credit assessment was also cut to "ca" from "caa3", potentially signaling the need for government intervention to support its significant upcoming debt maturities over the next 2–3 years.



## Kenya

**Kenya's Eurobond offering could price today, with preliminary plans showing that Kenya is targeting 7-year securities at a yield of around 11%, according to Bloomberg.** Last week the yield on Kenya's Eurobonds maturing in June 2024 fell sharply after the Kenyan government offered a \$2bn debt buyback with plans for new issuance. According to the statement, the amount that will be repurchased depends on the amount the government raises in a new securities offering, which may price today. The

buyback offer is set to close on February 14. Bloomberg notes that this morning the yield on Kenya's 2024 Eurobond eased (-38bps) to 10.75% and that Kenya's 2048 Eurobond was among the best performers in emerging markets, with the yield trading at around 10.55%. On Friday S&P global ratings affirmed Kenya's 'B' long-term foreign and local currency sovereign credit ratings on with a negative outlook.



## EM fund flows

**EM bond funds received inflows for the first time in over two months, while flows to EM equities remain positive.** EM bond funds' inflows (+\$81mn) was led by EM local currency funds (+\$231mn) while hard currency funds returned to outflows (-\$150mn). Within local currency, EM ex-China experienced inflows of +\$336mn, while China-focused funds continue to experience outflows (-\$105mn). EM equity fund flows remained positive (+\$479mn), driven by large ETF inflows (+\$1.8bn), which offset non-ETF outflows (-\$1.3bn). Flows were varied regionally, with inflows notable for Latam (+\$174mn), marginally for EMEA (+\$85mn) while Asia ex-Japan experienced outflows (-\$292mn). On non-resident flows, EM local bonds flows were positive, led by Hungary (+\$144mn), while EM equities inflows continued mainly from Taiwan (+\$1.2bn) and Korea (+\$3.1bn). Overall, despite the respite in the previous week, the YTD 2024 flows to EM bonds and equities remain negative at -\$2.5bn and -\$0.6bn, respectively.

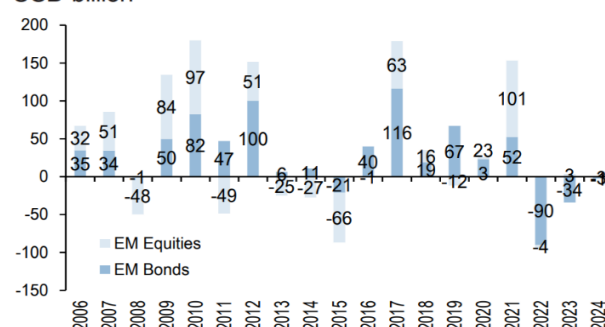
## Weekly cross-asset flows

USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
<b>EM Bonds and Equities</b>		0.6	-3.2
<b>EM Bonds</b>		0.1	-2.5
Hard Ccy		-0.1	-2.0
Local Ccy <sup>A</sup>		0.2	-0.5
o.w. EM ex-China		0.3	-0.1
o.w. China		-0.1	-0.4
<b>EM Equities</b>		0.5	-0.6
US HG		7.2	35.8
US HY		0.2	4.0
Global Equities		-16.7	-14.8
<b>EM Bond and Equity ETFs</b>		1.3	4.3
EM Bond ETFs		-0.4	-0.8
EM Equity ETFs		1.8	5.0
<b>Non-resident EM flows*</b>		4.6	5.9

## EM bond and equity fund flows

USD billion



\*High frequency non-resident EM portfolio flow data where available. <sup>A</sup>Local ccy split is retail only. Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

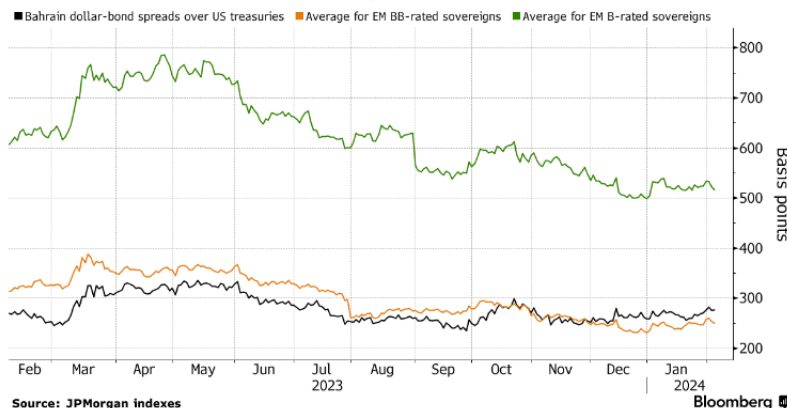
## EM Issuance

Bahrain's Feb 6 sale of \$2 billion debt across the 7-year (sukuk) and 12-year tranche (conventional) was met with strong investors' demand. The book stats, released last Friday, revealed that the orderbook totaled



over \$14bn, with interests skewed towards the Islamic bond. Pricing on the 7-year was at 6%, declining from initial guidance of around 6.625%, while the 12-year was at 7.5% from initial guidance range of 7.625%–7.75%. Bahrain last entered the international bond market in last August, with a \$1 billion 10-year deal. The sovereign is rated B+ by S&P and Fitch but has its bonds trading tighter than similar-rated peers.










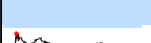

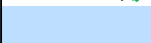



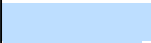




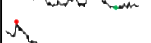
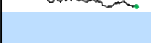


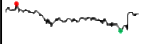
### Bahrain Has Similar Bonds Spreads to Better-Rated Countries



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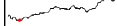







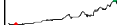







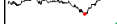


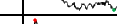












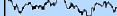

## Global Financial Indicators

2/12/24 8:09 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
United States		5029	0.6	2	5	23	5
Europe		4727	0.2	2	6	13	5
Japan		36897	0.1	2	4	33	10
China		3365	0.6	5	2	-19	-2
Asia Ex Japan		65	0.5	3	1	-6	-2
Emerging Markets		40	0.4	2	1	-2	-2
<b>Interest Rates</b>			basis points				
US 10y Yield		4.15	-2.7	-1	21	42	27
Germany 10y Yield		2.34	-4.3	2	16	-3	32
Japan 10y Yield		0.73	0.0	0	12	22	11
UK 10y Yield		4.03	-5.2	3	24	64	50
<b>Credit Spreads</b>			basis points				
US Investment Grade		128	-0.2	1	-3	-14	-6
US High Yield		375	2.8	-11	-23	-67	-11
<b>Exchange Rates</b>			%				
USD/Majors		104.15	0.0	0	2	0	3
EUR/USD		1.08	-0.1	0	-2	0	-2
USD/JPY		149.0	-0.2	0	3	13	6
EM/USD		46.9	0.1	0	-2	-7	-3
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		81.4	-1.0	4	4	1	6
Industrials Metals (index)		132	0.2	-2	-3	-20	-7
Agriculture (index)		61	0.0	0	0	-14	-3
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		13.4	0.5	-0.3	0.7	-7.2	0.9
Global FX Volatility		7.4	0.1	-0.3	-0.2	-3.2	-0.7
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		114	-0.7	7	8	-70	10
Italy		155	-3.5	-2	0	-30	-13
Portugal		81	-1.5	1	22	-6	17
Spain		96	-2.3	5	6	2	0

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

## Emerging Market Financial Indicators

Last updated: 2/12/2024 8:15 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		7.19	0.0	0.0	0	-6	-1		2.4	0.0	3	-7	-73	-12
Indonesia		15595	0.3	0.7	0	-3	-1		6.6	2.8	4	-2	-3	17
India		83	0.0	0.1	0	0	0		7.2	0.0	5	1	(25.2)	-1
Philippines		56	-0.2	0.5	0	-2	-1		5.4	-7.5	0	-22	-49	-20
Thailand		36	0.1	-0.2	-2	-6	-5		2.6	1.0	-14	-14	-17	-12
Malaysia		4.77	0.2	-1.0	-3	-9	-4		3.8	0.1	3	-1	-3	7
Argentina		831	-0.1	-0.5	-2	-77	-3		74.2	-123.0	42	-695	-1227	-1216
Brazil		4.95	0.9	0.3	-1	6	-2		10.8	1.5	7	5	-286	37
Chile		967	0.4	-1.1	-6	-18	-9		4.9	-1.0	2	3	-58	0
Colombia		3916	0.2	1.3	0	22	-2		7.5	0.0	-9	-3	-162	-12
Mexico		17.05	0.2	0.4	-1	9	0		8.7	-0.5	-4	27	3	22
Peru		3.9	-0.1	-0.8	-4	0	-4		6.7	-0.3	#####	20	-128	3
Uruguay		39	0.1	-0.4	1	0	-1		9.1	-7.6	-11	-42	-70	-42
Hungary		360	-0.2	0.1	-4	-1	-3		6.0	0.0	-7	43	-199	21
Poland		4.01	0.0	0.8	-1	11	-2		4.8	0.5	7	34	-61	31
Romania		4.6	-0.1	0.3	-2	-1	-2		6.3	0.6	5	0	-101	6
Russia		91.2	-0.1	-0.6	-3	-19	-2							
South Africa		19.0	0.1	0.4	-2	-6	-3		9.4	6.7	12	33	57	29
Türkiye		30.70	-0.1	-0.5	-2	-39	-4		26.5	-75.0	-93	-28	1523	-22
US (DXY; 5y UST)		104	0.0	-0.3	2	0	3		4.11	-2.6	-1	28	19	26

	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		3365	0.0	5	2	-19	-2		160	1	-1	-14	2
Indonesia		7298	0.9	1	1	6	0		110	-3	-8	-27	14
India		71072	-0.7	-1	-2	18	-2		116	-5	-12	-25	0
Philippines		6808	-0.6	1	2	0	6		92	1	-8	-18	12
Thailand		1389	0.1	0	-2	-17	-2		0	0	0	0	0
Malaysia		1512	0.0	0	2	3	4		89	-1	-5	-11	4
Argentina		1128511	1.1	-14	9	352	21		2009	83	-79	63	96
Brazil		128026	-0.2	1	-2	18	-5		219	-8	-2	-45	4
Chile		6047	0.5	1	1	12	-2		136	1	-1	1	11
Colombia		1248	-1.0	-2	-3	0	4		322	2	11	-53	51
Mexico		57328	-0.8	-1	3	9	0		332	0	-14	-26	-2
Peru		27348	0.2	1	5	26	5		153	0	-8	-31	9
Hungary		64784	-0.3	0	2	41	7		170	5	3	-29	21
Poland		78429	0.0	-1	3	31	0		110	1	4	40	13
Romania		15752	0.4	0	0	29	2		200	7	-19	-31	-1
South Africa		73273	-0.2	-1	-1	-7	-5		354	4	12	-3	46
Türkiye		9124	0.9	4	14	103	22		332	-29	-22	-172	18
Ukraine		507	0.0	0	0	0	0		4329	120	139	30	325
EM total		40	0.5	2	1	-2	-2		352	-4	-21	-24	7

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

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