GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, FEBRUARY 18, 2025

LEAD EDITOR: SANJAY HAZARIKA

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- **But markets remain highly optimistic about US stocks** (link)
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Global markets cautiously optimistic on hopes of end to Ukraine war

Most equity markets in Europe were higher along with US equity futures as peace talks to end the Ukraine war began in Saudi Arabia. The Euro Stoxx 50 is at its highest level in 25 years and the S&P 500 index is poised to set a new record high of its own. Euro area government bond yields went up on speculation that the EU will need to increase its bond issuance to finance greater spending on defence. European defence stocks have also surged in recent days. US Treasury yields also ticked higher as market particpants sought to understand recent CPI, PPI and retail sales data and their implications for the US economy. The Reserve Bank of Australia delivered its first rate cut since 2020 but surprised markets with a hawkish outlook that tempered expectations for future rate cuts. Last week, Japan announced that Q4 GDP came in at a very strong 2.8%, leading markets to expect higher interest rates and a stronger Yen.

Key Global Financial Indicators

Last updated: 2/18/25 8:10 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		6115	0.0	1	2	22	4
Eurostoxx 50		5536	0.3	3	8	16	13
Nikkei 225		39270	0.2	1	2	2	-2
MSCI EM		44	0.8	3	6	11	6
Yields and Spreads					bps		
US 10y Yield		4.52	4.7	-1	-10	24	-5
Germany 10y Yield		2.51	1.6	8	-3	10	14
EMBIG Sovereign Spread		313	-2	-1	-10	-77	-12
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		44.3	0.0	1	3	-5	3
Dollar index, (+) = $ appreciation		107.0	0.4	-1	-2	3	-1
Brent Crude Oil ($/barrel)		75.1	-0.2	-2	-7	-10	1
VIX Index (%, change in pp)		15.5	0.2	0	0	1	-2

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

This is expected to be a relatively quiet week on the economic data front for US markets, with few major data releases beyond housing starts, PMIs and the latest University of Michigan consumer sentiment survey. The euro area will also report on consumer confidence, while data on PMIs later in the week does have the potential to move markets. In China, there could be changes in a couple of key lending rates from the PBOC. India is also scheduled to report on PMIs, while Japan's inflation report will be an important focus given the recent surge in Japanese Government Bond (JGB) yields. The UK will also report on inflation. After today's meetings of the Reserve Bank of Australia and the Central Bank of Nigeria, other central bank meetings later this week include New Zealand, Indonesia, and Türkiye.

Mature Markets

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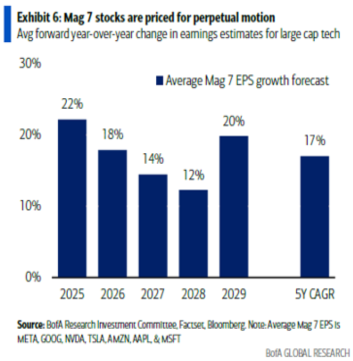
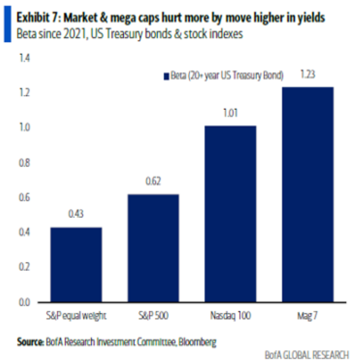
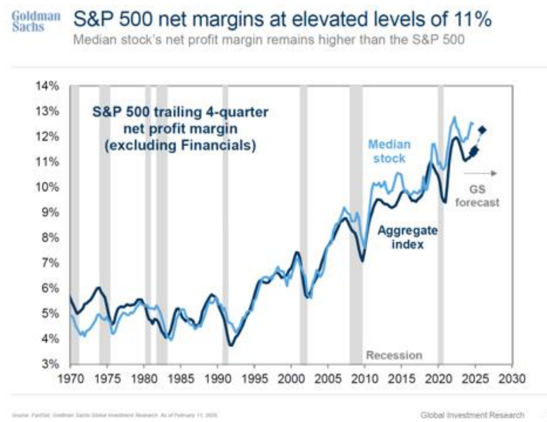
United States

Richly valued US equity markets are increasingly vulnerable to a sharp correction that could destabilize the broader financial landscape. Much of the rise in the S&P 500 has been driven by the Magnificent Seven stocks, led by Nvidia, which now account for a major part of the market capitalization of the overall index. Earnings forecasts for these companies are very optimistic, and even a minor disappointment could have an outsized impact on their equity prices. One area of concern is that major capital investments in AI-related technology would weaken profit margins if the resulting additional revenue is not high enough. Another source of worry is the recent rise in interest rates, as conventional wisdom and recent history indicate that they hurt technology companies more than others. Other analysts are less worried about higher rates, on the grounds that these companies nowadays hold large cash balances that bring in higher profits as rates go up. Cash holdings in previous years were much smaller. Meanwhile, Nvidia's next earnings report on February 26 could have a big impact on the market.



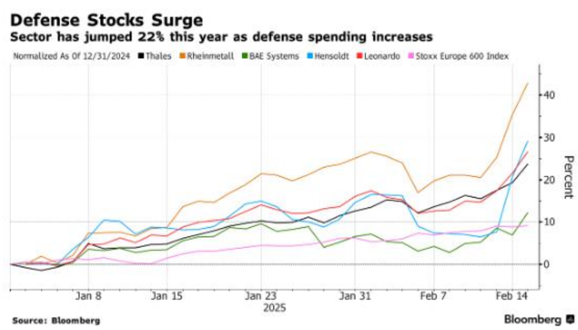


However, investors remain highly optimistic about the US equity market, despite its lagging peer markets in Europe to start the year. They believe that the US economy will remain strong, as shown by the significant outperformance of cyclical stocks versus defensive stocks. Profit margins for US companies are high, as seen in the latest earnings reports from Q4 2024, and are expected to remain robust in 2025. The median company profit margin in the S&P 500 is higher than the average for the index as a whole. Goldman expects the S&P 500 to deliver earnings of $268 per share in 2025, up 11% from last year, which works out to a year-end target of 6500 for the index. So far, markets are showing signs of "tariff fatigue," and investors seem to be assuming that actual tariff outcomes will not be as negative as originally feared.

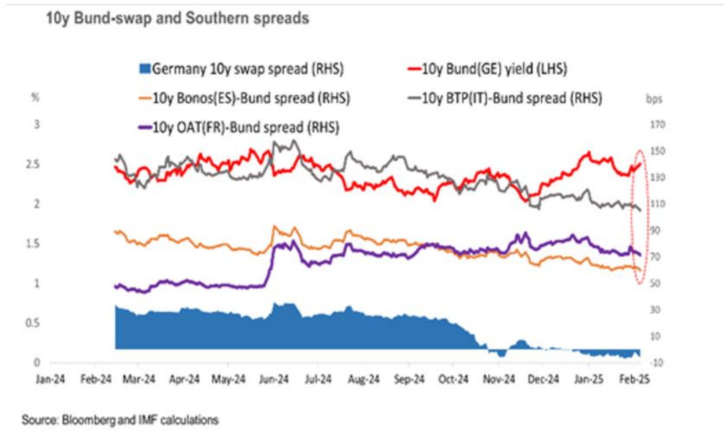


Euro Area

European equities were mostly higher as the Euro Stoxx 50 index hit its highest level in 25 years, led by surge of the aerospace and defense sector to its highest level since the early 1990s **on the back of European leaders' talks in Paris from which analysts expect more European involvement in Ukraine's security and a general rise in defense spending.** The Stoxx 600 index was also up flat today after having risen yesterday by 0.4%, with gains in the banking (+1%) and industrial (0.5%) sectors offset by losses in the information technology (-0.8%) and utilities (-0.6%) sectors.

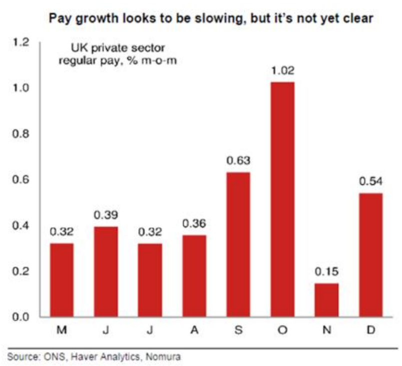


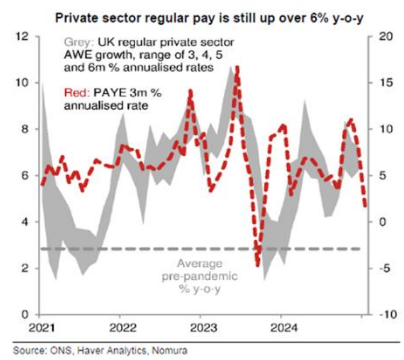
The euro was weaker (-0.2%) again the dollar this morning, trading at $1.0464/€. The German ZEW business confidence beat forecasts ahead of the upcoming elections on February 23, which are expected to lead to a more market-friendly government, according to analysts at Bloomberg. The index jumped to 26pts in February (vs. est. 20pts), from prior 10.3 the month before and above its 10-year average of about 13pts. **European government bond yields edged slightly higher** (by about 2bps) **this morning** as bonds extended yesterday's losses (yields up by 5bps across tenors) with investors' focus remaining on the **need for European countries to issue more debt to boost defense spending**. Bunds yields bear steepened yesterday with the 2-year Bund yields at 2.15% today and the 10y yields at 2.51%. The Bund continued to underperform Southern government bonds, after Olaf Scholz and the conservative frontrunner Friedrich Merz ruled out yesterday the possibility of serving together in the same cabinet after the upcoming elections. The spread of 10y Italian BTPs vs Bund yields continued to narrow (-2bps) today to 104bps, with analysts at Crédit Agricole seeing German elections and supply dynamics supporting further tightening of spread in the coming weeks. The 10y French OAT-Bund yield spread also fell (-2bps) to 71bps.



United Kingdom

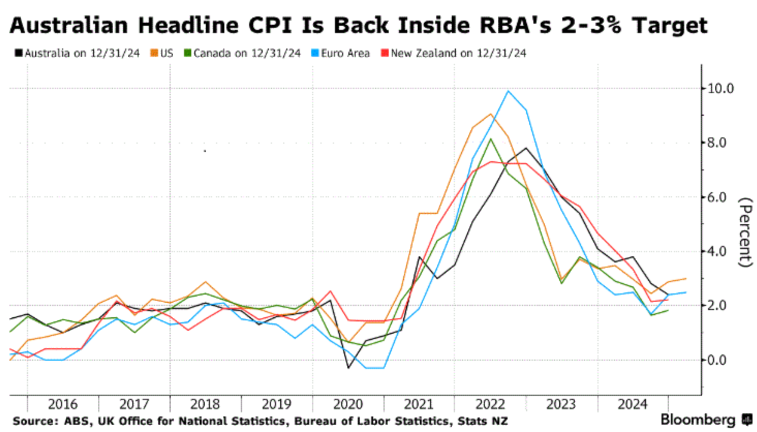
Markets were little changed even though the latest UK jobs report was stronger than expected. Three-month average weekly earnings rose in December by 6% y/y, its highest level in 8 months according to Bloomberg, with private sector pay growth up by 6.2%y/y. Markets have almost priced out a rate cut at the March 20 BOE meeting, but a rate cut at the May 8 meeting is almost fully priced in. The policy rate is expected to fall to 3.9% by the end of the year from the current level of 4.5%.





Australia

The Reserve Bank of Australia (RBA) cut its key interest rate by 25bps to 4.10%, the first reduction since 2020. In its post-meeting statement, the reserve board stressed that returning inflation to its target remains its highest priority. The RBA cut its core inflation estimate for June 2025 to 2.7% from 3.0% but anticipated the trimmed mean gauge to stay at 2.7% until June 2027. Governor Michelle Bullock delivered a hawkish commentary, warning that today's rate cut does not directly imply further rate cuts, as suggested by market pricing, and reiterated that any future rate cuts will depend on incoming data. ANZ expects a stronger dollar due to the shorter easing cycle. The sovereign yield curve shifted higher (10-year: +5.4bps to 4.51%). Overnight index swaps went from pricing 2.5 more rate cuts in 2025 to slightly less than two rate cuts after the policy meeting.



Emerging Markets

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Latin American currencies were higher against the dollar. **Asian currencies** depreciated against the dollar after hawkish signals by a Federal Reserve official. The depreciation was led by the Indonesian rupiah (-0.3%). EM Asian equities generally rose (EM Asia: +1.2%), led by Philippines (+1.7%), as well as Hong Kong SAR advancing (+1.6%) on an extended tech rally. **EMEA currencies were also weaker.** Investors worried about the future of Ukrainian bonds due to the uncertainties surrounding the peace negotiations. S&P affirmed Angola at B-.

EM Fund Flows

The EM bond funds see marginal outflows amidst tariff threats. Weekly EM bond flows were -$78mn (from -$421mn), while equity flows were -$612mn (from -$631mn) for the week ending on February 14th. Within bond funds, hard currency fund inflows rose to +$137mn this week (from -$174mn), and local currency fund outflows slightly declined to -$214mn (from -$247mn). ETF inflows rose to +$214mn (from -$11mn) and non-ETF outflows fell to -$292mn (from -$411mn). Within equity funds, ETFs saw increased inflows (+$832mn, from +$397mn), while non-ETFs had increased outflows (-$1.4bn, from -$1.0bn). Among regional funds, Asia ex-Japan saw decreased outflows of -$15mn (from -$562mn); EMEA had inflows (+$76mn) as did Latam (+$22mn). Finally, among non-resident portfolio flows, Indonesia led with net foreign buying of local bonds, while equities saw net foreign outflow, mainly from India. YTD, EM bond and equity flows are -$3.3bn and -$9.6bn, respectively.

Figure 1: Weekly cross-asset flows

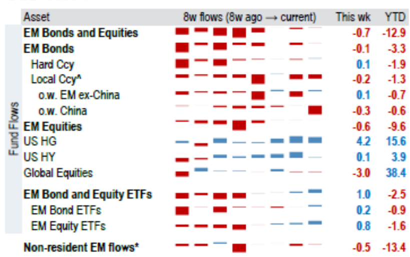
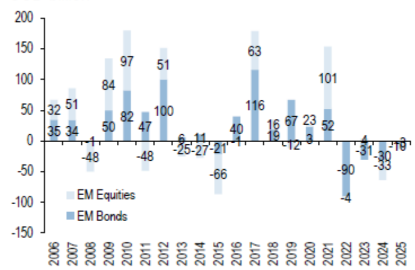


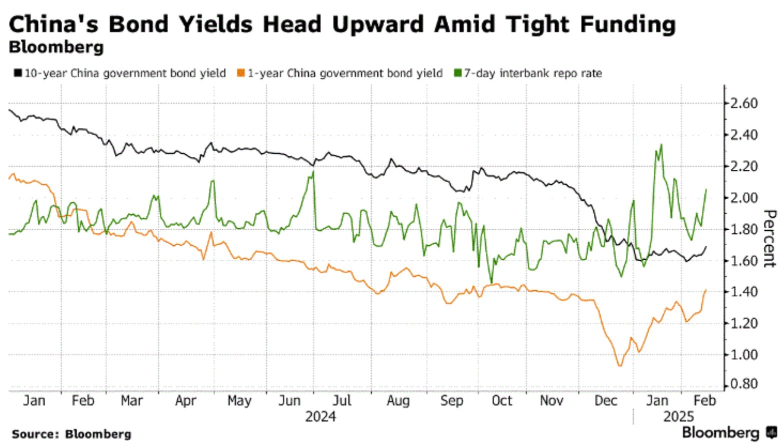
Figure 2: EM bond and equity fund flows



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

China

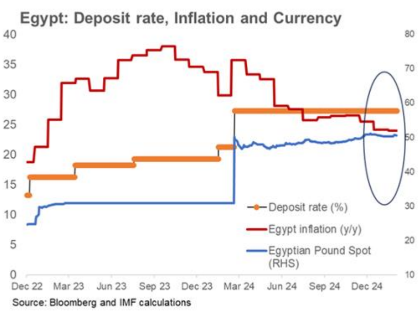
Liquidity tightness among China's onshore banks has worsened, with the 7-day repo rate jumping 28.8 bps to 2.34% and the overnight repo rate rising 2.7 bps to 1.97%. The People's Bank of China (PBOC) injected net 456.2 bn yuan ($64 bn) through seven-day reverse repos today, not fully offsetting the 500 bn yuan ($70 bn) maturity of one-year medium-term lending facilities, thereby continuing to drain cash from banking system to support the yuan. The tight liquidity, combined with investors shifting into the AI-driven stock market rally, has triggered a rebound in sovereign yields from historical lows this month. The tech stock rally was further supported by President Xi's public meeting yesterday with Chinese Tech CEOs which spurred hopes of an end to years-long regulatory crackdown on the private sector. Chinese equities reached intraday highs (CSI 300: +0.5%, Hang Seng +2.3%) before closing downwards on possible profit-taking (CSI 300: -0.9%, Hang Seng +1.6%). In a synchronized move, 10-year bond yields retreated from intraday high 1.73% to 1.71%, up 1.7

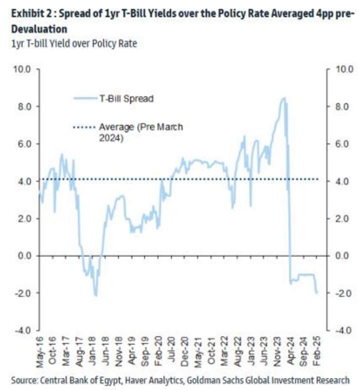


bps today. Both onshore CNY and offshore CNH depreciated (-0.2%), while the fixing was set at 7.1697, slightly stronger than yesterday.

Egypt

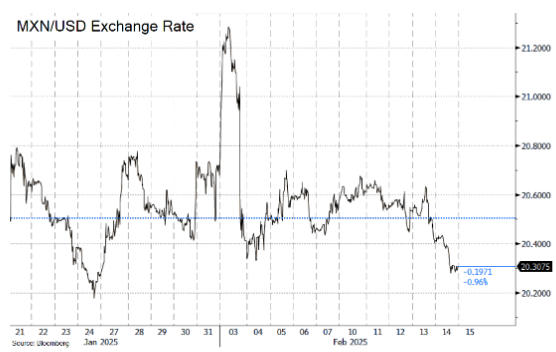
The central bank is expected to stay on hold at 27.5% this week due to a deterioration in the external environment. Analysts initially expected a 200 bps rate cut but worries about US tariff policies and foreign aid flows has increased volatility and ended the recent appreciation of the pound. The prospect of the relocation of the citizens of Gaza as espoused by the US government has also increased the level of uncertainty in local markets. However, analysts do expect easing to begin later this year, with the consensus forecast that the policy rate will fall to 16% by the end of the year. The easing cycle is likely to boost the demand for duration, leading to lower rates across the yield curve.





Mexico

Mexico's peso strengthened against the US dollar, reflecting market speculation that US President Donald Trump's tariffs threats are primarily a negotiating strategy rather than an imminent economic action. On Friday, February 14, 2025, the peso advanced 0.5% to 20.3075, marking a notable appreciation. USD/MXN one-month implied volatility is at 12.150%, down from 13.215% on Thursday, poised for the lowest level since January 7. US President Donald Trump has signed his plan for reciprocal tariffs, introducing a complex dynamic in global trade relations, but delayed their implementation as his administration launches negotiations with nations that could be impacted. Global financial markets appear inclined to take some relief from the postponement.



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Global Financial Indicators

2/18/25 8:11 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		6,127	0.0	1.0	2.2	22.4	4
Europe		5,536	0.3	2.7	7.5	16.2	13
Japan		39,270	0.2	1.2	2.1	2.1	-2
China		3,913	-0.9	0.8	2.6	15.0	-1
Asia Ex Japan		75	0.7	2.7	4.7	14.3	4
Emerging Markets		44	0.8	2.8	5.5	10.8	6
Interest Rates					basis points		
US 10y Yield		4.5	5	-1	-10	24	-5
Germany 10y Yield		2.5	2	8	-3	10	14
Japan 10y Yield		1.4	4	11	23	70	33
UK 10y Yield		4.6	3	5	-10	45	-1
Credit Spreads					basis points		
US Investment Grade		111	0	-4	-6	-13	-9
US High Yield		306	-3	5	9	-65	-23
Exchange Rates					%		
USD/Majors		107.0	0.4	-1.2	-2.2	2.6	-1
EUR/USD		1.04	-0.4	0.8	0.3	-3.1	1
USD/JPY		151.8	0.2	-0.5	-2.5	1.1	-3
EM/USD		44.3	0.0	1.2	3.1	-5.3	3
Commodities					%		
Brent Crude Oil ($/barrel)		75.1	-0.1	-2.5	-5.6	-2.8	1
Industrials Metals (index)		147.1	-0.6	-1.3	-0.1	8.6	5
Agriculture (index)		61.4	0.0	0.6	6.1	4.0	8
Implied Volatility					%		
VIX Index (%, change in pp)		15.5	0.2	-0.3	-0.4	1.3	-1.8
Global FX Volatility		8.0	0.0	-0.5	-1.1	1.0	-1.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		82	-2	-6	4	-27	-4
Italy		104	-2	-6	-7	-44	-11
France		71	-1	-7	-7	23	-12
Spain		60	-2	-4	-4	-30	-10

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

Emerging Market Financial Indicators

Last updated: 2/18/2025 8:13 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		7.28	-0.2	0.4	-0.1	-1.1	0.3		1.7	3	6	3	-74	3
Indonesia		16278	-0.3	0.7	0.6	-4.0	-0.9		6.7	-3	-7	-34	10	-27
India		87	-0.1	-0.1	-0.5	-4.5	-1.5		7.1	-2	-7	-6	-8	-20
Philippines		58	-0.3	-0.1	0.5	-3.7	-0.4		5.1	0	2	0	-32	25
Thailand		34	0.0	1.1	1.2	6.9	1.9		2.4	0	2	-7	-26	4
Malaysia		4.45	-0.3	0.5	1.1	7.7	0.6		3.8	0	-1	-2	-4	-2
Argentina		1059	0.1	-0.3	-1.2	-21.0	-2.6		27.6	109	62	245	-4807	-152
Brazil		5.70	0.2	1.1	5.8	-13.0	8.2		14.7	-24	-58	-72	429	-127
Chile		952	-0.4	1.0	5.2	1.5	4.7		5.9	3	9	12	55	24
Colombia		4141	-0.3	-0.1	3.9	-5.4	6.4		11.6	-2	12	2	200	-19
Mexico		20.28	0.0	1.4	1.1	-16.0	2.7		9.9	3	12	-43	46	-44
Peru		3.7	0.1	0.4	1.3	2.7	1.7		6.5		0	-16	-25	-16
Uruguay		43	0.0	0.3	1.5	-9.6	1.0		9.7	0	-2	4	68	6
Hungary		384	-0.3	1.1	2.7	-6.2	3.4		6.4	3	13	-19	34	3
Poland		3.99	-0.5	1.0	2.4	0.7	3.6		5.5	7	2	-11	36	-4
Romania		4.8	-0.3	0.8	0.3	-3.1	0.8		7.3	-1	-2	-65	94	2
Russia		91.3	0.2	5.7	10.2	1.4	24.4							
South Africa		18.4	-0.2	0.2	0.5	2.8	2.2		10.7	5	2	1	-88	19
Türkiye		36.27	-0.1	-0.6	-1.9	-14.9	-2.5		28.9	9	42	51	140	-84
US (DXY; 5y UST)		107	0.4	-1.2	-2.1	2.6	-1.4		4.37	4	0	-6	9	-1

	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		3,913	-0.9	0.8	2.6	15.0	-0.6		94	-1	3	-64	-2
Indonesia		6,874	0.6	5.2	-3.9	-5.8	-2.9		96	4	3	-15	5
India		75,967	0.0	-0.4	-0.9	4.5	-2.8		91	-5	3	-21	5
Philippines		6,095	1.7	1.8	-4.0	-10.3	-6.6		90	1	5	-3	11
Thailand		1,257	0.1	-1.0	-6.2	-9.4	-10.2						
Malaysia		1,585	0.1	-0.3	1.2	3.0	-3.5		69	-1	-3	-17	-1
Argentina		2,254,189	-5.6	-5.7	-10.2	111.6	-11.0		676	14	96	-1283	39
Brazil		128,552	0.3	1.6	5.1	-0.1	6.9		217	-5	-14	1	-30
Chile		7,318	-0.8	0.5	5.2	15.5	9.1		120	-2	2	-12	7
Colombia		1,568	1.0	2.1	12.7	24.7	13.6		313	-12	-6	3	-13
Mexico		54,292	0.4	2.6	8.7	-5.0	9.7		296	-13	-16	-38	-16
Peru		29,561	-0.1	-0.5	0.8	4.3	2.1		139	-6	-1	-10	-2
Hungary		88,115	0.4	0.5	3.8	34.0	11.1		149	-6	-8	-18	-6
Poland		93,541	1.2	2.8	11.8	16.7	17.5		110	0	0	5	-2
Romania		17,647	0.0	2.5	4.2	12.3	5.5		237	-4	-16	36	1
South Africa		89,145	0.8	1.8	5.2	21.1	6.0		298	-14	7	-61	5
Türkiye		9,827	-0.1	-0.6	-1.5	6.2	0.0		258	-3	-7	-66	-1
EM total		44	0.1	2.8	5.5	10.8	6.2		359	6	-2	8	-5

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

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