



- Survey finds fund managers are very bullish on global equities ([link](#))
- Markets expect low volatility in short run but are pricing higher vol down the road ([link](#))
- Attempts to cut US government spending could keep interest rates lower ([link](#))
- China sees acceleration in FX outflows due to trade fears and yield gap ([link](#))
- Government bond yields in Japan at highest since 2009 ([link](#))
- Ukraine government bonds decline on fears of unfavorable peace deal ([link](#))

[Mature Markets](#)




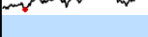






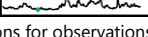
[Emerging Markets](#)

[Market Tables](#)

Markets retreat due to worries about tariffs and global uncertainty

The US President announced that new 25% tariffs were likely on imports of medicines, cars and semiconductors, potentially starting on April 2. Other worries such as the war in Ukraine and Sunday's election in Germany made for a gloomy outlook to start the day. The global equity rally was stopped in its tracks, with markets in the US and Europe falling back from the record closes seen yesterday on both sides of the Atlantic. Government bond yields were higher in the euro area, while US Treasuries sold off at the long end while holding steady at shorter maturities. The dollar appreciated against most major currencies, while oil prices rose. Meanwhile, market participants are preparing for further developments in the week, such as the FOMC minutes due later today and China's decision tomorrow on loan prime rates. Euro area PMI data are due to be released on Friday. Government bonds in Ukraine took a hit on worries that the eventual hoped for peace deal would be less favorable to Ukraine.

Key Global Financial Indicators

Last updated: 2/19/25 7:28 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
S&P 500		6130	0.2	1	2	22	4
Eurostoxx 50		5498	-0.7	2	7	15	12
Nikkei 225		39165	-0.3	1	2	2	-2
MSCI EM		45	0.6	2	6	12	7
Yields and Spreads							
US 10y Yield		4.56	1.2	-6	-7	28	-1
Germany 10y Yield		2.54	4.4	6	0	13	17
EMBIG Sovereign Spread		310	-3	-7	-11	-72	-15
FX / Commodities / Volatility							
EM FX vs. USD, (+) = appreciation		44.3	-0.1	1	3	-5	3
Dollar index, (+) = \$ appreciation		107.2	0.1	-1	-2	3	-1
Brent Crude Oil (\$/barrel)		76.5	0.8	2	-5	-9	2
VIX Index (% change in pp)		15.4	0.0	-1	-1	1	-2

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

Mature Markets

[back to top](#)

United States

The latest Bank of America Fund Manager Survey (FMS) finds that investors are extremely optimistic about market prospects. Their holdings of cash are at their lowest in 15 years as they are fully invested in the market. In summary, investors are “...long stocks, short everything else.” A key reason for the bullishness is that just 16% expect a global recession in 2025 and as many as 82% think there will be no recession this year, the highest proportion since February 2022. Investors think the Fed is not year done for the year, with 73% predicting at 1–2 more cuts; just 1% expect a rate hike in 2025. The trend of “American Exceptionalism” is expected to end, with markets in Europe and other regions outperforming US equities. A trade war is seen as no more than a tail risk. Investors viewed a recovery in China as the most likely upside surprise.

Chart 1: FMS cash levels at 15-year lows

BoFA Global FMS average cash level (%)

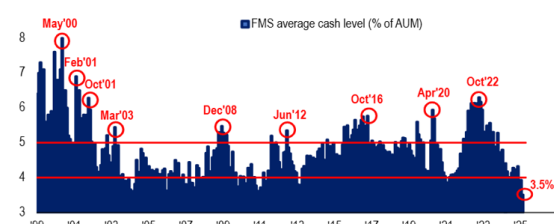


Chart 5: 16% predict global recession, while 82% say no recession (most since Feb'22)

How likely is it that the global economy will experience recession in the next 12 months?



Short-dated interest rate volatility is at its lowest level in three years, using six-month/two-year and six-month/10-year swaption volatilities as proxies (swaptions are option on interest rate swaps). The trend towards lower volatility in the shorter end of the curve where Fed policy has more influence has continued despite the elevated uncertainties about the policy choices of the new administration. Barclays believes that this is because the uncertainties involve issues that are unlikely to force the Fed to change its policy rate. However, the short term interest rate futures market (futures based on the Secured Overnight Funding rate or SOFR) still assigns a probability of 30% that there could be a rate hike in 2025, pointing to the risk that volatility could increase later in the year. This 30% level is significantly higher than the 10-15% probability assigned by surveys, and also contradicts the forward Treasury curve which expects the two-year Treasury yield to remain unchanged over the next 12 months. Over the longer term, it is not clear how inflation will behave and how the new administration's fiscal position will evolve, so many analysts are cautious for H2 2025.

Figure 1. 6m2y and 6m10y implied vols are at lows not seen since early 2022

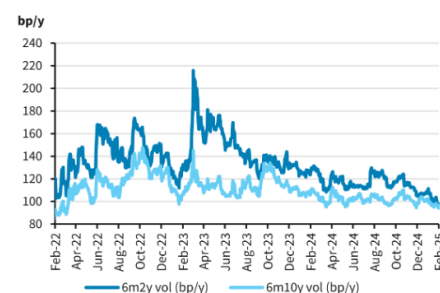
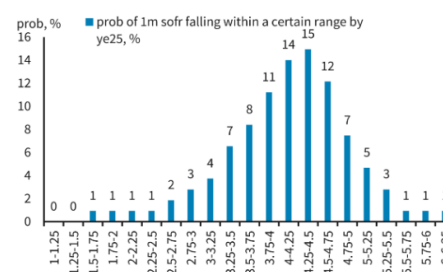


Figure 2. Vol markets are still priced for a nearly 30% probability of a hike this year



Efforts to reduce government spending could lower US interest rates, according to analysis by Bank of America. The new administration has highlighted cutting the budget deficit as a key policy goal, and the US Treasury's interest payments are expected to grow by \$200–300 bn in 2025, taking the total annual bill to \$1.5 tn. The analysts believe that the administration's cost-cutting efforts could result in \$150–300 bn of lower spending. They point out that the defense budget has grown to more than \$900 bn from just \$630 bn in 2019, and that substantial further savings could come from shrinking the government's spending on defense, especially if global risks subside due to the ending of the war in Ukraine and other conflicts. If realized, these spending cuts could significantly improve the government's fiscal position and push long term interest rates down. Bank of America expects the 10-year Treasury yield to fall to 4% by the end of 2025.

Chart 5: US interest payments likely to rise >\$100 in 2025
UST interest payments (12m cumulative, \$bn) & rate projections



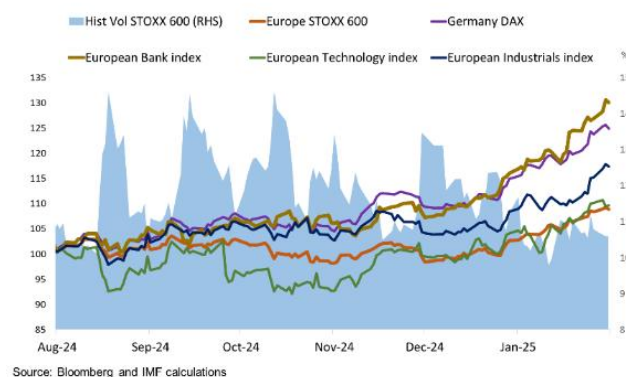
Chart 6: US defense spend >\$900bn in '24...tempting source of savings
US defense spending (\$bn)



Euro Area

European equities edged lower this morning, mirroring futures on US stocks, as investors ponder on headlines of possible 25% US tariffs on automobiles, semiconductors and pharmaceutical imports and wait for the latest Fed meeting minutes later today. The Stoxx 600 index was down by -0.4%, with heavier losses in the materials (-1.9%), consumer discretionary goods (-1.3%) and industrial (-0.7%) sectors; equities were also in the red in the banking sector (-0.5%) where HSBC announced today a global restructuring that will cost the bank \$1.8bn in the next two years.

European Stocks (Aug 2024= 100)



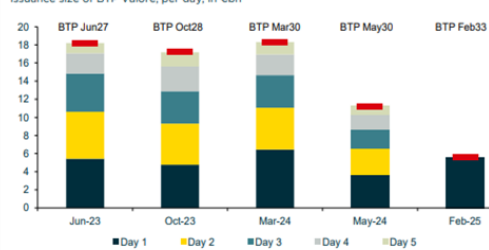
The euro continued to weaken (-0.2%) again the dollar this morning, trading at \$1.0424/€. ECB Governing Council member Robert Holzmann stated yesterday that with core inflation at 2.7%, ECB's current policy rate at 2.75% is moving into neutral territory and that lowering the rate below 2.5% would indicate less restrictive policy which might become increasingly difficult if services inflation remains sticky.

30y Bund ASW spread vs. €STR (invoice), in bp



Source: Bloomberg, Commerzbank Research

Issuance size of BTP Valore, per day, in €bn



Source: Borsa Italiana, Commerzbank Research

European government bond yields continued to edge higher (by about 5bps) across all tenors this morning, on the back of headlines about European leader pondering options to boost defense spending and adjust strategy for Ukraine. The 2-year Bund yields rose by 4 bps to 2.16% while the 10-year Bund yields edged higher by 5bps to 2.54% today. Options for funding increased defense spending in Europe include resorting to national budgets or EU resources, which would however require amending EU treaties and face high political hurdles. TD Bank sees members reallocating the EU funds already available rather than signing off on a new EU program. Commerzbank notes that recent EGBs' spread tightening reflects markets' expectations that these events will be a major catalyst for the further European integration, but views defense funding as mostly done at national level.

United Kingdom

The pound sterling weakened while gilts sold off, sending yields up by about 7 bps across tenors, after January headline inflation printed today above expectations at 3%/y/y (vs. est. 2.8%) climbing from 2.5%/y/y in December. The surge in headline inflation was driven by goods and food prices, airfares, and VAT on private school fees. Analysts at Bloomberg expect headline inflation to peak at 3.5%/y/y in 3Q 2025 before falling to 3% at year-end and see the Bank of England cutting its policy rate three times more in 2025 to 3.75%. ING highlights progress on services inflation and expects the Bank of England to cut its policy rate down to 3.25% in 2026. Goldman Sachs expects the Bank of England to stay on hold at the March meeting, and to cut at a quarterly pace thereafter in 2025. Markets have almost priced out any move in March.

UK Production, Inflation, Policy Rate and Stock Market



Source: Bloomberg and IMF calculations

GB Pound - US Dollar and Swap spread

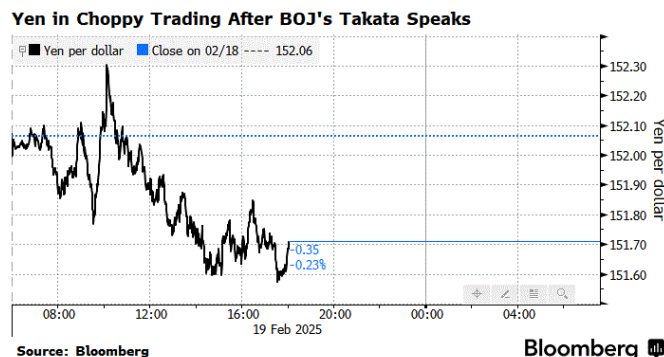


Source: Bloomberg and IMF calculations

Japan

Bank of Japan (BOJ) board member Hajime Takata says the rise of long-term bond yields is consistent with market's economic outlook and BOJ's policy shift. In a speech to business leaders, Takata suggested the BOJ should turn from implementation of unconventional monetary measures to policy conduct consistent with "normal times" and stressed the importance of further rate hikes to avoid materialization of upside risks to prices. Takata said further rate hikes would be possible if positive corporate

behavior—including price pass-through, pay increases and capital spending—is sustained. Analysts consider Takata's speech in line with his usual hawkish stance, but also reinforcing the uptrend of JGB yields. 10-year sovereign yields rose +0.5 bps to 1.435%, highest since 2009. The Yen appreciated (+0.2%) today while equities declined (NIKKEI 225: -0.3%), led by Toyota and Honda reacting to potential 25% tariffs on autos, chips, and pharmaceuticals.



Emerging Markets

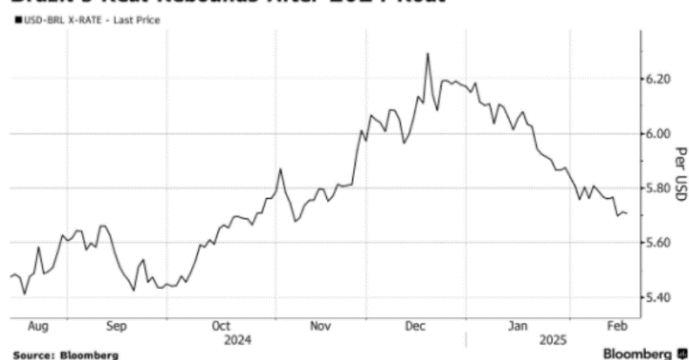
[back to top](#)

EMEA equities were mixed while currencies were mostly weaker this morning. Equities in CEE were mostly lower with Polish equities underperforming (-1.3%) while CEE currencies were roughly 0.3% weaker against the euro as investors remain focused on talks between the US and Russia on a possible peace agreement in Ukraine. Nigeria's central bank is expected to stay on hold at 27.5% tomorrow due to worries about inflation. **Asian equities generally declined (EM Asia: -0.3%) on renewed tariff threats, with Korea (KOSPI: +1.7%) being an outlier on EV battery optimism regarding the Toyota-LG Energy deal.** Asian currencies were little changed against the dollar. **Stocks in Mexico followed the US market higher but equities in Brazil were little changed.** Local currencies were mixed.

Brazil

Amidst a strong rally in Brazilian assets early in 2025, Brazil is issuing new debt for the first time in over six months. Latin America's largest economy seeks to sell bonds valued at \$2.5bn maturing in 2035, which are likely to yield around 6.75%, down from an initial price of 7.05%. Proceeds will be used to pay down existing public debt. Brazilian assets have rebounded this year, following a severe downturn at the end of last year which was fueled by growing concerns regarding the country's debt trajectory. The

Brazil's Real Rebounds After 2024 Rout



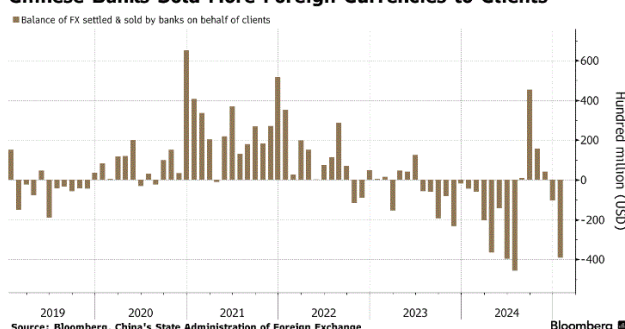
currency, after slumping more than 21% versus the dollar in 2024, is now up about 8% this year. Stocks have also climbed 6.8% this year despite ongoing interest rate hikes by the central bank.

China

According to data by the State Administration of Foreign Exchange, domestic banks sold foreign currencies worth a net \$39.2 bn to their clients in January 2025. This is most since July 2024, and the third largest monthly outflow since December 2016. Analysts think that January's capital outflows were mainly driven by increased market volatility and yuan depreciation pressure, but also note that some of the dollar purchases have stayed onshore as foreign-currency deposits, which rose nearly \$40 bn in January,

the largest monthly increase since April 2021. Outflows have continued in the bond market, with foreign investors' CGB holdings falling to the lowest level in four years. In the stock market, Chinese onshore investors bought HKD 22.4 bn (\$ 2.88 bn) worth of Hong Kong stocks yesterday, the biggest daily purchase since early 2021. Inflows from onshore investors have sparked a strong rally in Hong Kong stocks, up over 14% in 2025. Today, both onshore CNY (-0.1%) and offshore CNH (-0.2%) depreciated, with fixing at 7.1705, slightly weaker than yesterday. Equities rose (CSI 300: +0.7%) on AI optimism, while 10-year bond yields fell 2.8 bps to 1.69%, now just 24 bps above 1-year yields (1.47%) and 36 bps below the 7-day policy repo rate of 2.05%, which came back down from yesterday's high of 2.34%.

Chinese Banks Sold More Foreign Currencies to Clients



Ukraine






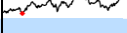









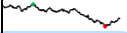

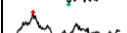
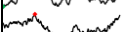
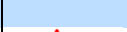

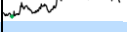
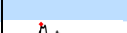


Ukraine's eurobonds declined by almost 4% after talks between the US and Russia which excluded Ukraine and the EU raised fears that the eventual hoped for peace settlement could be less favorable to Ukraine. Ukraine's dollar bonds have been among the best performing assets since 2024 – especially securities linked to economic growth (GDP warrants). Looking ahead, analyst views diverge on Ukraine's bonds—with Bloomberg reporting some expectations for positive momentum to continue, while other analysts are also concerned that Ukraine would walk away from a peace deal (which would be negative for Ukrainian bonds).



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (Senior Financial Sector Expert), Benjamin Mosk (Senior Financial Sector Expert), Sonal Patel (Senior Financial Sector Expert-London Representative), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are John Caparusso (Senior Financial Sector Expert), Mustafa Oguz Caylan (Research Officer), Sally Chen (IMF Resident Representative in Hong Kong), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Senior Research Officer), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Silvia Ramirez (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), Hong Xiao (Economist), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Jing Zhao (Economic Analyst). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Tyler (Administrative Coordinator) are responsible for the word processing and production of this monitor.

Disclaimer: This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

2/19/25 7:30 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		6,130	0.2	1.0	2.2	22.5	4
Europe		5,498	-0.7	1.7	6.8	15.4	12
Japan		39,165	-0.3	0.5	1.9	1.8	-2
China		3,940	0.7	0.5	3.4	15.8	0
Asia Ex Japan		76	0.8	2.3	5.6	15.3	5
Emerging Markets		45	0.6	2.2	6.2	11.5	7
Interest Rates			basis points				
US 10y Yield		4.6	1	-6	-7	28	-1
Germany 10y Yield		2.5	4	6	0	13	17
Japan 10y Yield		1.4	1	9	23	70	33
UK 10y Yield		4.6	5	6	-6	50	4
Credit Spreads			basis points				
US Investment Grade		111	-1	-5	-6	-14	-9
US High Yield		305	-3	4	8	-65	-23
Exchange Rates			%				
USD/Majors		107.2	0.1	-0.7	-2.0	2.8	-1
EUR/USD		1.04	-0.2	0.4	0.1	-3.3	1
USD/JPY		151.8	-0.2	-1.7	-2.5	1.1	-3
EM/USD		44.3	-0.1	1.0	3.2	-5.3	3
Commodities			%				
Brent Crude Oil (\$/barrel)		76.5	0.8	1.7	-3.9	-1.1	3
Industrials Metals (index)		148.0	0.1	0.5	0.5	9.2	5
Agriculture (index)		62.2	0.6	2.7	7.5	5.4	9
Implied Volatility			%				
VIX Index (% change in pp)		15.4	0.0	-0.6	-0.6	0.7	-2.0
Global FX Volatility		7.9	0.0	-0.5	-1.2	1.0	-1.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		84	2	-1	7	-24	-1
Italy		108	2	-1	-3	-41	-8
France		72	1	-4	-6	25	-11
Spain		62	1	0	-2	-29	-8

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

Emerging Market Financial Indicators

Last updated: 2/19/2025 7:32 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		7.29	-0.1	0.3	-0.2	-1.2	0.2		1.7	2	8	5	-72	5
Indonesia		16325	-0.3	0.3	0.3	-4.3	-1.2		6.7	-2	-9	-36	8	-29
India		87	-0.1	-0.1	-0.5	-4.5	-1.5		7.1	0	-10	-6	-8	-20
Philippines		58	0.2	0.2	0.7	-3.5	-0.2		5.1	1	4	1	-31	26
Thailand		34	-0.2	0.9	1.1	6.9	1.9		2.4	0	2	-7	-26	4
Malaysia		4.44	0.1	0.6	1.1	7.7	0.6		3.8	-1	-3	-4	-6	-3
Argentina		1058	0.1	-0.2	-1.2	-20.9	-2.6		27.6	-4	51	242	-4811	-156
Brazil		5.70	-0.3	1.1	5.9	-13.0	8.3		14.7	-1	-49	-73	428	-128
Chile		954	-0.4	-0.2	5.0	1.3	4.4		5.9	2	8	15	58	26
Colombia		4092	0.9	1.1	5.2	-4.3	7.7		11.6	1	11	3	202	-17
Mexico		20.31	-0.3	1.1	1.0	-16.1	2.6		9.9	-2	3	-45	45	-46
Peru		3.7	0.3	0.8	1.4	3.0	1.9		6.5	0	-3	-16	-23	-16
Uruguay		43	0.1	0.4	1.6	-9.5	1.2		9.7	0	-2	4	68	6
Hungary		386	-0.7	0.3	2.1	-6.7	2.8		6.5	1	-3	-17	36	4
Poland		4.01	-0.9	0.0	1.9	0.2	3.0		5.5	1	-3	-9	37	-3
Romania		4.8	-0.2	0.4	0.1	-3.3	0.6		7.3	2	-5	-63	96	4
Russia		89.8	2.0	4.7	12.0	3.1	26.5							
South Africa		18.6	-1.0	-0.3	-0.3	2.0	1.4		10.7	-2	-4	-1	-90	17
Türkiye		36.30	-0.1	-0.6	-2.0	-15.0	-2.6		28.6	-27	-32	24	113	-111
US (DXY; 5y UST)		107	0.1	-0.7	-2.0	2.8	-1.2		4.40	0	-7	-3	12	2

	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		3,940	0.7	0.5	3.4	15.8	0.1		91	-3	-3	-64	-5	
Indonesia		6,795	-1.1	2.2	-5.0	-6.9	-4.0		87	-5	-6	-20	-4	
India		75,939	0.0	-0.3	-0.9	4.4	-2.8		86	-8	0	-23	0	
Philippines		6,120	0.4	1.3	-3.7	-10.0	-6.3		81	-6	-4	-8	2	
Thailand		1,262	0.4	-1.7	-5.8	-9.0	-9.9							
Malaysia		1,581	-0.2	-1.4	0.9	2.7	-3.7		69	-1	-2	-14	-1	
Argentina		2,391,725	6.1	5.2	-4.7	123.1	-5.6		697	-12	54	-1096	60	
Brazil		128,532	0.0	1.6	5.1	-0.4	6.9		214	-11	-10	0	-33	
Chile		7,298	-0.1	0.2	4.9	14.3	8.8		117	-3	0	-12	4	
Colombia		1,577	0.6	3.0	13.3	29.2	14.3		311	-12	0	9	-15	
Mexico		54,477	0.3	1.9	9.1	-5.2	10.0		297	-13	-13	-30	-15	
Peru		29,400	-0.5	0.2	0.3	3.8	1.5		137	-7	-1	-7	-4	
Hungary		88,612	-0.1	0.6	4.4	34.3	11.7		141	-12	-14	-24	-14	
Poland		93,464	-1.3	1.8	11.7	15.6	17.5		105	-3	-8	4	-7	
Romania		17,821	0.3	2.9	5.3	12.9	6.6		230	-11	-18	31	-5	
South Africa		88,660	-0.5	0.8	4.7	20.5	5.4		294	-15	-2	-52	1	
Türkiye		9,893	-0.2	1.2	-0.8	7.6	0.6		252	-8	-21	-63	-7	
EM total		45	-0.1	2.2	6.2	11.5	6.9		359	-4	-2	17	-5	

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

[back to top](#)