GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, FEBRUARY 2, 2024
LEAD EDITOR: PATRICK SCHNEIDER

- **Bank exposure to commercial real estate loans maturing by 2025 is close to $560 bn** (link)
- **Chinese equity markets have underperformed most global indices in recent years** (link)
- **Egypt's central bank surprised markets by hiking 200 bps** (link)
- **El Salvador bonds have rallied sharply in the last week** (link)
- **Bank of England set to deliver less easing than its peers, with diverging analyst views** (link)

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Jobs, Jobs, Jobs: Massive Upside Beat on NFP Report Sends Yields Higher

The January jobs report beat expectations at 353k (vs 185k), sending Treasury yields and the dollar higher. 2y Treasury yields rose as much as 15 bps immediately following the release, while the dollar index gained close to 0.5%. Markets repriced policy expectations, with less than a 25% chance of a rate cut in March, and May no longer seen as a foregone conclusion. US stock futures pared early gains following the jobs report but remained higher following after market gains for Amazon and Meta yesterday on strong earnings. Most global indices were also higher on Friday. However, Chinese stocks fell over 3% intraday before recovering somewhat, but the benchmark CSI300 hit its lowest level since January 2019. Separately, Donald Trump stated he would not reappoint Jerome Powell as Fed Chairman if re-elected.

Key Global Financial Indicators

Last updated: 2/2/24 9:01 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		4906	1.2	0	3	17	3
Eurostoxx 50		4666	0.6	1	3	10	3
Nikkei 225		36158	0.4	1	8	31	8
MSCI EM		39	1.0	0	-2	-7	-4
Yields and Spreads					bps		
US 10y Yield		4.00	12.3	-13	7	61	12
Germany 10y Yield		2.23	7.6	-7	16	15	20
EMBIG Sovereign Spread		400	-1	-3	17	-43	17
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		47.1	-0.6	-1	-2	-9	-2
Dollar index, (+) = $ appreciation		103.7	0.6	0	1	2	2
Brent Crude Oil ($/barrel)		78.5	-0.3	-6	3	-4	2
VIX Index (%, change in pp)		13.9	0.0	1	1	-5	1

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

Mature Markets

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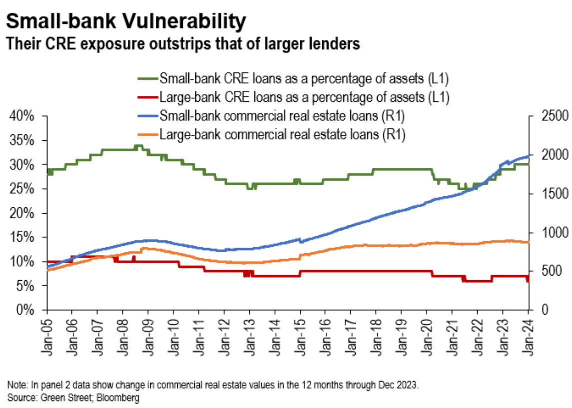
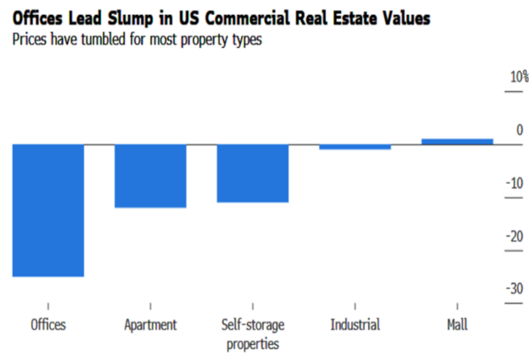
United States

US equites rallied 1.3% on Thursday even as regional bank stocks struggled. The rally in tech stocks drove the benchmark index higher, with strong earnings by Amazon and Meta extending gains beyond the market close. In contrast, concerns about US regional banks broadened beyond NY Community Bancorp, driving the regional bank index down another 2.3% (-8.4% over two days). The Treasury curve shifted lower, as some analysts cited large short covering at the long end.

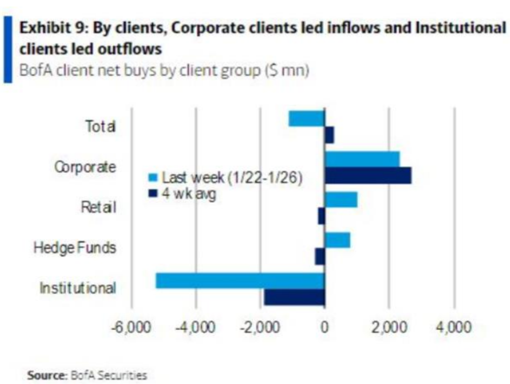
Treasuries sold off Friday mornig as US nonfarm payrolls surprised on the upside at 353k (vs 185k expected), with the unemployment rate holding at 3.7%. Wage growth also surprised on the upside. While the report beat all survey estimates, some analysts noted that the household survey was not as strong. Labor force participation remained steady at 62.5%. Nevertheless, the strong report pushed 2yr and 10yr yields up 15 bps and 10 bps respectively immediately following the release.

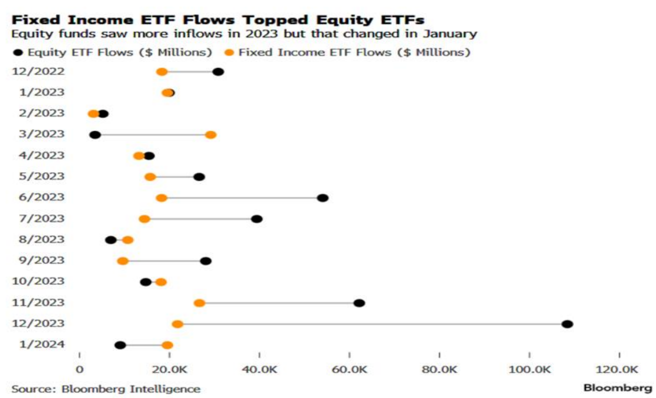
Bank exposure to commercial real estate (CRE) loans estimated at $560 bn through 2025. Banks hold about half of the total property loans maturing during this period. However, small banks are more vulnerable, with 28.7% of their total assets in the CRE sector, compared to 6.5% for large banks. Smaller institutions also typically do not have other business lines like credit cards or investment banking to buffer their earnings. CRE prices have slumped over 20% in the office segment.





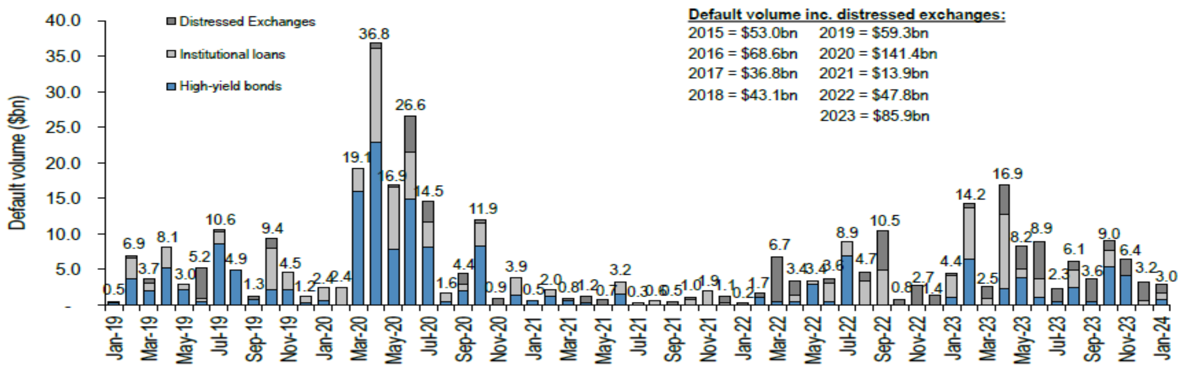
Bond funds have seen continued inflows even as equity flows have slowed. Institutional investors drove outflows from equities last week, even as corporate and retail remained net buyers. The institutional sector has reportedly turned neutral on stocks, with the bulk of selling in tech stocks. Investors continue to view fixed income favorably, with bond ETF flows surpassing equities for the first times since October as investors look to lock in higher yields.





Corporate defaults and distressed exchanges declined to their lowest level in six months. Total corporate default and distressed exchange volumes declined by $0.2 bn m/m to $3 bn in January 2024, the lowest in six months. Defaults in loans and bonds were $974 mn and $750 mn, respectively. While January volumes were below the 2023 monthly average of $7.2 bn, they are still above the 2021/22 monthly average of $2.6 bn. Both US high yield and loan default rates have declined by 8 bps each on a sequential basis to 2.77% and 3.22% respectively, below the 25-year average. The total share of distressed bonds (trading with spreads greater than 1000 bps) and loans (trading below 80) declined to 6.2% of outstanding. Nevertheless, the number of issuer downgrades exceeded upgrades for the fourth consecutive month.

Default/distressed exchange volume was a 6-month low in January



Source: J.P. Morgan; PitchBook Data, Inc; Bloomberg Finance L.P.; S&P/IHSMarkit

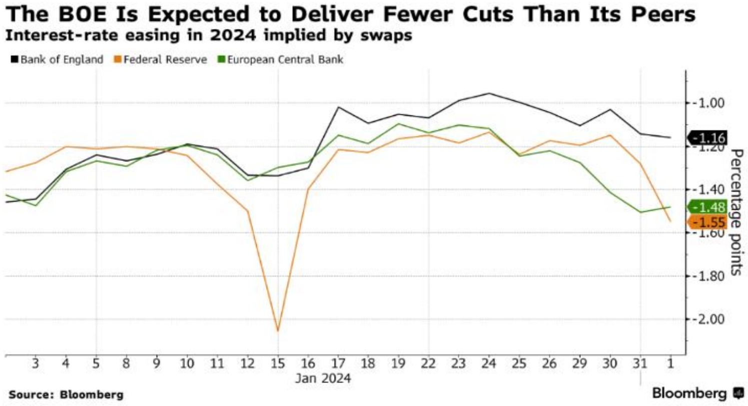
Europe

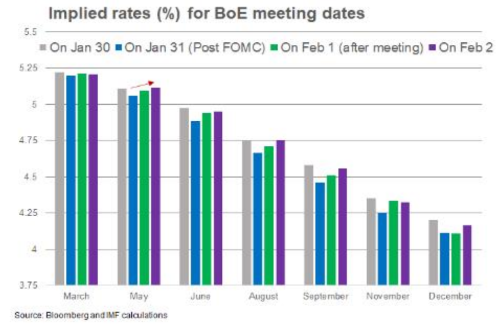
European equities were mostly trading higher with the Stoxx 600 index up 0.6%, supported by positive earnings news. The auto (+1.5%) and real-estate (+1.4%) sectors outperformed, while the energy sector was 1% lower. **The euro was marginally stronger against the dollar (+0.2% to 1.089).** Contacts argue that today's US jobs report could provide some support to the euro, but point out that low implied volatility suggests that investors are not anticipating an increase in FX volatility in the near future. Sovereign yields were little changed, with the 10y bund yield (+1 bp) trading at around 2.16%. On the data front, **French industrial production rebounded sharply in December** to +1.2% m/m (vs 0.2% expected) from a revised 0.2% previously.

United Kingdom

Gilt yields climbed higher with the 10y (+7 bps) trading near 3.81% Friday afternoon, about 13 bps lower than at the start of the week. The pound was gaining against the dollar (+0.1% at 1.276).

Analysts remain divided on when the Bank of England (BoE) will start easing interest rates. Market expectations were little changed after the BoE meeting yesterday, where the committee left its policy rate unchanged at 5.25%, albeit in a split decision. The first cut remains fully priced in by June, though the probability of a May cut declined slightly, with just over 100 bps of easing priced in by end-2024. Market analysts disagree on how persistent inflationary pressures will be. Regarding the meeting, the more hawkish camp highlighted the fact that two members of the MPC preferred a 25 bp hike, and believe the committee could push the first cut back to August. Other contacts noted the more dovish tones, highlighting one MPC member favoring a 25 bp cut and the committee's implied view that the next move will be a cut.





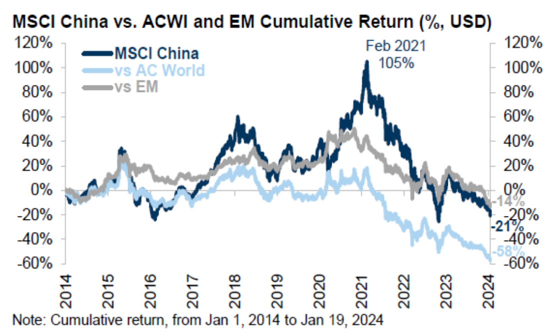
Emerging Markets back to top

EMEA equity markets were mostly trading higher this morning, with equities in Poland (+1.1%) strongly outperforming while currencies were mixed against the euro**.** Bloomberg reported that Türkiye's sovereign wealth fund is considering a debut Eurobond sale, more than three years after similar plans were cancelled due to adverse market conditions**. Asian equity markets were mixed on Friday, with China underperforming (CSI300 -1.2%)** as some media reported concerns about forced selling by leveraged shareholders using shares as collateral. Among the rest of EM Asia, South Korea (+2.9%) led the way, while India, Indonesia, and Malaysia all climbed higher. Most regional currencies gained. **Latin American currencies gained on Thursday, while the Chilean peso underperformed (-0.4%)**. Regional stocks followed US markets higher. The central bank of the Dominican Republic left rates unchanged for the second consecutive month.

China

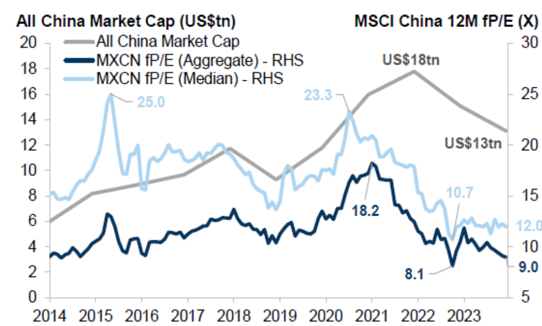
Chinese equity markets have underperformed most global indices. The MSCI China equity index has given up almost all the gains it had accrued since its inception in 1992. Analysts at Goldman estimate that $6 tn of value has been erased over the past three years. Foreign investors have long since headed for the exits, with China allocations for both hedge funds and mutual funds at cyclical lows. Although the weakness of the Chinese economy and the problems with the real estate sector played a role in the market decline, contacts attribute the bulk of their pessimism to a perception that the Chinese state has assumed a dominant role in the corporate sector, subordinating business considerations in favor of nationalist goals. Recent attempts by the authorities to prop up the markets have yet to bear fruit, with both the Shanghai CSI and Hong Kong SAR Hang Seng indices already posting large losses for the year.

Exhibit 1: The past 3 years have been a very challenging period for Chinese equities



Source: MSCI, FactSet, Goldman Sachs Global Investment Research

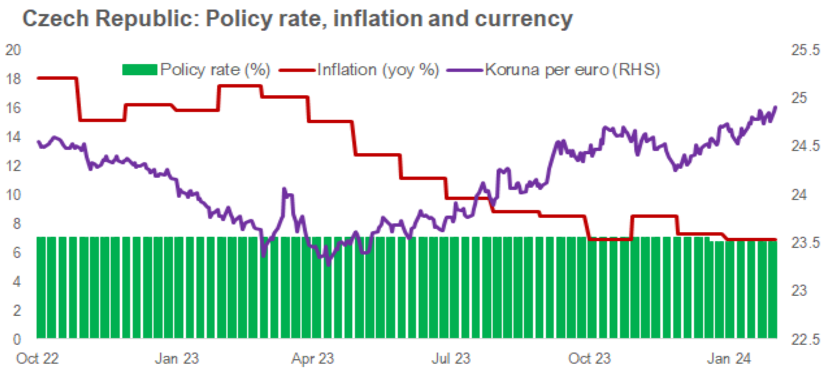
Exhibit 2: Valuations are at historical lows, with almost US$6tn of market cap lost in the past 3 years



Source: FactSet, Wind, MSCI, Goldman Sachs Global Investment Research

Czechia

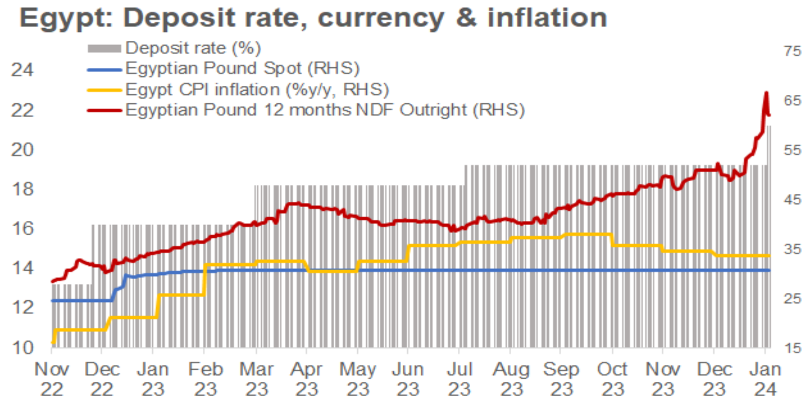
Market consensus expects a 50 bp rate cut next week, though views are mixed with many expecting a smaller move. The central bank's easing cycle started in December 2023 with a 25 bp rate cut, and contacts see considerable uncertainty around the pace of easing going forward. Two board members (Holub and Fait) have argued for at least a 50 bp cut at the upcoming February 8th meeting, though it's unclear whether this represents a majority view. HSBC analysts believe the central bank may want to wait for January and February inflation prints before accelerating rate cuts, and expect only a 25 bp move.



Sources: Bloomberg and IMF calculations

Egypt

Egypt's central bank surprised markets by raising the benchmark deposit rate 200 bps to 21.25%. Consensus expectations had been for the central bank to keep the deposit rate unchanged at 19.25%, which had been the prevailing rate since August 2023. In the accompanying statement, the central bank cited elevated inflationary pressures and geopolitical uncertainty. Goldman Sachs, which had expected a 300 bp hike, argued that an increase of that magnitude *"will send a positive signal of intent on the authorities' part and smooth the way for a new IMF deal in the very near future."* According to Bloomberg, the IMF and Egyptian authorities will work over the coming days to finalize a Memorandum of Economic and Financial Policies and identify the magnitude of additional support needed from the IMF and other offical partners. The Egyptian pound continues to trade in a range between EGP65/USD and 70 in the parallel market, compared to the official spot rate at around EGP30.9/USD.

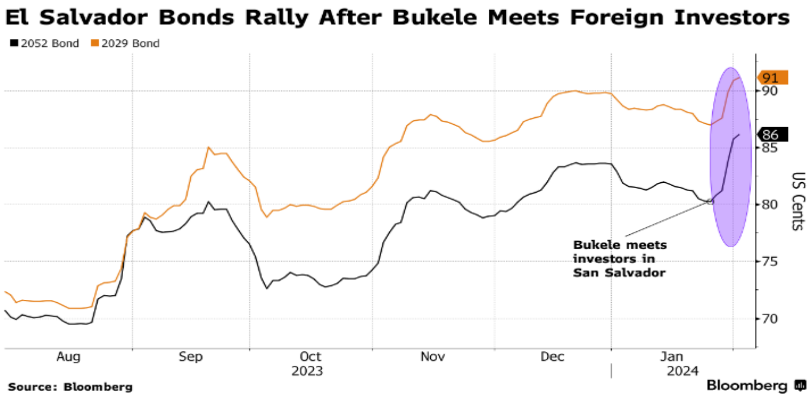


Source: Bloomberg and IMF calculations

El Salvador

El Salvador bonds have rallied sharply in the last week. President Bukele, the frontrunner in Sunday's election, reportedly has vowed to continue working with the IMF to reach a new loan agreement. Over the last week, the USD bonds due 2052 and 2029 have gained 4–6 cents on the dollar to 86 and 91, respectively. S&P upgraded the sovereign to B+ in November. Public debt is forecast to remain over 70%

of GDP in 2024, while the authorities have stated that bitcoin would remain legal tender. Mr. Bukele would be the first Salvadoran leader re-elected in more than 80 years.



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Global Financial Indicators

2/2/24 8:59 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		4922	1.2	1	4	18	3
Europe		4666	0.6	1	3	10	3
Japan		36158	0.4	1	8	31	8
China		3180	-1.2	-5	-4	-23	-7
Asia Ex Japan		64	0.9	-1	-3	-11	-4
Emerging Markets		39	1.0	0	-2	-7	-4
Interest Rates					basis points		
US 10y Yield		4.00	12.3	-13	7	61	12
Germany 10y Yield		2.23	7.6	-7	16	15	20
Japan 10y Yield		0.67	-3.3	-5	6	17	6
UK 10y Yield		3.88	13.2	-9	24	87	34
Credit Spreads					basis points		
US Investment Grade		127	-2.7	3	-9	-9	-6
US High Yield		382	-9.9	4	-12	-39	-3
Exchange Rates					%		
USD/Majors		103.65	0.6	0	1	2	2
EUR/USD		1.08	-0.6	0	-1	-1	-2
USD/JPY		148.0	1.0	0	4	15	5
EM/USD		47.1	-0.6	-1	-2	-9	-2
Commodities					%		
Brent Crude Oil ($/barrel)		78.5	-0.3	-5	3	1	2
Industrials Metals (index)		137	-0.6	-2	-3	-22	-4
Agriculture (index)		61	0.0	0	-1	-12	-2
Implied Volatility					%		
VIX Index (%, change in pp)		13.9	0.0	0.6	0.7	-4.9	1.4
Global FX Volatility		7.6	0.0	0.2	-0.6	-2.5	-0.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		108	0.0	6	3	-87	5
Italy		158	0.3	5	-7	-24	-10
Portugal		81	-0.5	0	18	-1	18
Spain		93	-0.3	3	-3	2	-4

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

Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
2/2/2024	Level		Change (in %)					Level		Change (in basis points)				
8:10 AM	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		7.18	0.0	0.0	0	-6	-1		2.4	-1.0	-8	-17	-78	-14
Indonesia		15658	0.7	1.0	-1	-5	-2		6.5	-2.1	-12	1	-7	4
India		83	0.1	0.2	0	-1	0		7.1	-3.0	-13	-18	(25.5)	-16
Philippines		56	0.4	0.7	0	-4	-1		5.4	0.1	-2	4	-47	-20
Thailand		35	0.6	1.1	-3	-7	-3		2.7	-0.8	-4	-6	16	-2
Malaysia		4.72	0.3	0.3	-2	-10	-3		3.8	-0.9	-3	4	0	5
Argentina		827	-0.1	-0.5	-2	-77	-2		73.7	38.6	-133	-1271	-1333	-1271
Brazil		4.91	0.0	0.0	0	3	-1		10.6	-2.8	-9	12	-250	16
Chile		933	-0.1	-1.2	-5	-17	-6		4.8	0.0	-17	-24	-46	-16
Colombia		3901	-0.3	0.3	0	18	-1		7.3	6.0	-14	-46	-150	-33
Mexico		17.05	0.2	0.6	0	9	0		8.5	0.0	-19	-3	36	9
Peru		3.8	-0.1	-1.2	-3	1	-3		6.6	0.0	-6	-13	-120	-7
Uruguay		39	0.0	0.0	0	0	0		9.3	-0.8	-4	-27	-83	-27
Hungary		353	-0.2	1.2	-1	0	-2		5.8	-0.5	-33	-16	-205	-2
Poland		3.97	0.1	1.4	1	8	-1		4.5	0.0	-27	-8	-56	6
Romania		4.6	0.1	0.3	-1	-2	-1		6.2	-3.7	-11	-4	-117	-4
Russia		91.0	-0.7	-1.2	0	-22	-2							
South Africa		18.7	-0.3	0.7	0	-8	-2		9.1	-0.3	-14	-9	55	-4
Türkiye		30.45	-0.4	-0.6	-2	-38	-3		27.6	13.0	4	37	1682	82
US (DXY; 5y UST)		103	-0.1	-0.4	1	1	2		3.83	1.5	-21	-9	34	-2

	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		3180	-1.2	-5	-4	-23	-7		162	0	4	-23	4
Indonesia		7239	0.5	1	-2	5	0		124	8	28	-31	28
India		72086	0.6	2	0	18	0		121	-6	5	-34	5
Philippines		6707	1.3	0	1	-5	4		107	9	27	-18	27
Thailand		1384	1.2	1	-3	-18	-2		0	0	0	0	0
Malaysia		1517	0.2	1	2	2	4		91	0	6	-14	6
Argentina		1302467	3.3	1	40	423	40		1960	84	47	132	47
Brazil		128481	0.6	0	-3	17	-4		233	13	18	-40	18
Chile		6047	1.1	0	-3	14	-2		139	9	14	-2	14
Colombia		1278	0.1	0	5	1	7		321	12	50	-53	50
Mexico		57828	0.8	3	1	7	1		335	-2	1	-19	1
Peru		27063	0.5	2	5	21	4		154	-1	10	-41	10
Hungary		65323	0.0	2	8	43	8		171	0	22	-45	22
Poland		79981	2.0	6	3	30	2		112	6	15	18	15
Romania		15709	0.6	4	2	28	2		195	-11	-5	-51	-5
South Africa		75032	0.8	0	-1	-6	-2		354	10	46	-15	46
Türkiye		8660	0.2	4	14	82	16		368	23	54	-145	54
Ukraine		507	0.0	0	0	0	0		4197	128	193	3	193
EM total		39	0.7	0	-2	-7	-4		362	0	16	-12	16

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

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