



- Polish zloty gains after retail sales surprise on the upside ([link](#))
- German equities rally following election result ([link](#))
- Rising inflation swaps suggest fiscal uncertainty in Brazil and Colombia remains high ([link](#))
- US equities have underperformed in 2025 ([link](#))
- Chinese local governments have increased bond issuance this year to refinance debt ([link](#))

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Markets Start the Week on A Cautious Note Following German Election

Global stocks were mixed on Monday following the sell off in US stocks on Friday and the German election on Sunday. The election results were broadly in line with expectations, and Friedrich Merz said he aims to establish a governing coalition within two months. Investors will be looking for more expansionary fiscal policy, though analysts highlighted some uncertainty about how easily the ruling coalition would be able to reform the debt brake. Early momentum in European risk assets faded, though German stocks were higher and the euro gained slightly. European bond yields rose 1–2 bps. Elsewhere, global stocks were mixed, with Chinese markets down slightly. Trade tensions remain high, as the Trump Administration announced it would further restrict Chinese investment into strategic sectors, potentially impose port fees on Chinese ships, and ask Mexico to impose tariffs on Chinese goods. US stock futures were up slightly this morning after the market fell 1.7% on Friday, its largest decline since December. Otherwise, US investors will be looking for more clarity on the budget outlook, with the Senate and House of Representatives releasing different plans ahead of the government funding deadline in mid-March.

Key Global Financial Indicators

Last updated: 2/24/25 8:09 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		6013	-1.7	-2	-1	18	2
Eurostoxx 50		5468	-0.1	-1	5	12	12
Nikkei 225		38777	0.3	-1	-3	-1	-3
MSCI EM		45	-0.3	2	5	11	7
Yields and Spreads			bps				
US 10y Yield		4.44	1.0	-4	-18	19	-13
Germany 10y Yield		2.49	2.0	0	-8	13	12
EMBIG Sovereign Spread		320	3	7	0	-59	-5
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		44.5	0.1	0	2	-4	4
Dollar index, (+) = \$ appreciation		106.6	0.0	0	-1	3	-2
Brent Crude Oil (\$/barrel)		74.4	0.0	-1	-5	-9	0
VIX Index (% change in pp)		17.7	-0.5	3	3	4	0

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

In the week ahead, the main US data release will be PCE inflation data on Friday, which analysts expect to print 2.5% y/y (2.6% core). Given some concerns about the state of the consumer and job market, the consumer confidence data on Tuesday and initial jobless claims on Thursday will also be of

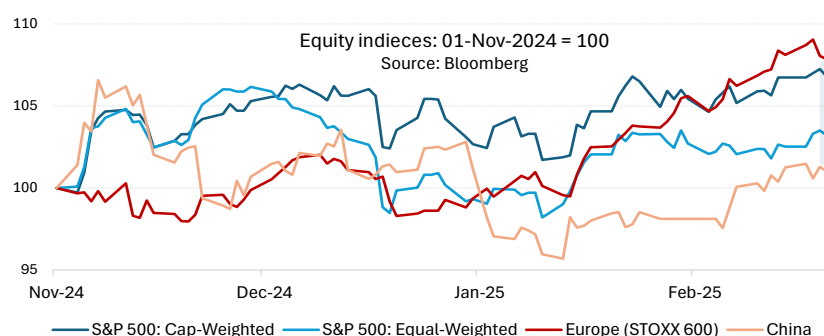
interest to investors. In Europe, inflation data for several major economies will be released on Thursday. Elsewhere, several central banks have policy decisions, with Israel, Hungary, and Thailand expected to keep interest rates unchanged. Consensus expects South Korea's central bank to cut by 25 bps.

Mature Markets

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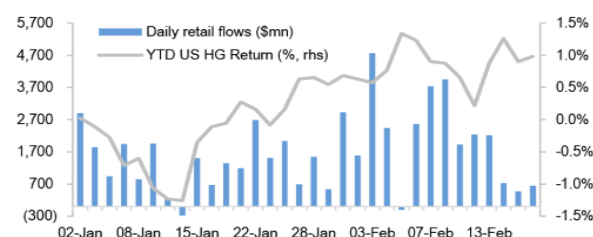
United States

US equities have underperformed in 2025 and are back to levels seen in late November. Although sentiment had been relatively positive coming into the year, many analysts highlighted the extremely high positioning around US equities relative to European and emerging market stocks. Investors have looked to take advantage of the relatively low valuations in other parts of the world after two years of US outperformance. Other factors, like the breakout in Chinese AI stocks following the DeepSeek phenomenon, have also supported non-US stocks. Nevertheless, some analysts caution that Europe and China face significant structural challenges, which could limit the length of US underperformance.



Investment grade corporate credit spreads remain tight but there are signs of weakening demand for bonds. JPMorgan analysts highlighted that a recent surge in new issuance of investment grade bonds has coincided with signs of weaker demand. Domestic fund flows (mutual funds and ETFs) and foreign demand, proxied by JPMorgan's foreign attractiveness ("FAB") index, have softened in recent weeks. The FAB index has fallen largely due to significantly higher EURUSD hedging costs as the ECB and Fed outlooks diverge, and the situation is expected to last for at least another 6 months. In addition, European spread compression has outpaced US credit, partly on optimism over a possible Ukraine peace deal, which may be limiting inflows from Europe.

Figure 1: Inflows have weakened in recent days despite stable returns



Source: J.P. Morgan, EPFR.

Figure 2: Foreign demand metrics are looking weaker on account of EMEA



Source: J.P. Morgan.

Europe

European equities were mixed, the euro edged higher, and bond yields were up slightly following the German election results. The Stoxx 600 index was marginally higher (+0.1%) this morning, while the euro pared initial gains but was stronger (+0.1%) against the dollar. ING analysts noted that while the

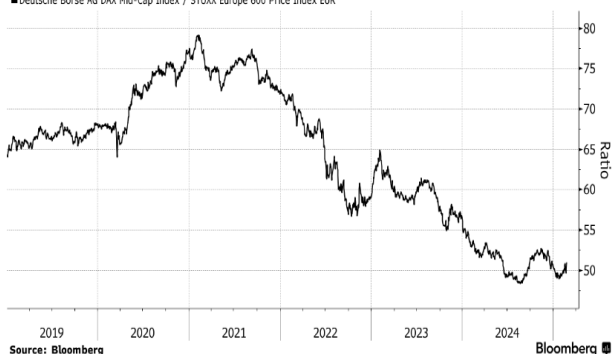
currency would remain sensitive to talks around the debt rule, they expect the exchange rate to be driven by news around Russia-Ukraine peace talks and US tariffs in the coming months. On the data front, Germany's February IFO Business Climate was marginally lower than expected (85.2 versus 85.8 expected, 85.2 previous), with ING analysts arguing that the data suggests the economy has stagnated.

German equities outperformed (+0.8%), but coalition talks will be challenging. The center-right CDU/CSU party won yesterday's German election with 28.6% of the votes, followed by the far-right AfD (20.8%) and the center-left SPD (16.4%). The most likely outcome is a CDU/CSU coalition with the SPD, led by Chancellor Merz, though they may need to include a smaller third party, such as the Greens. Commerzbank analysts highlighted that the lack of a two-thirds majority could make reforming the debt brake very difficult, absent significant concessions to the Left. Nevertheless, Deutsche Bank analysts see the possible coalition as positive for Germany's corporate sector, and Germany's MDAX index of medium-sized companies rallied as much as 2.6% on Monday. 10y bund yields rose 2 bps to 2.47%. Herr Merz said that he would like to form a government within two months, a goal that Commerzbank analysts see as ambitious, but not impossible. Otherwise, he also highlighted the importance of achieving strategic independence from the US.

Domestic Downside for German Stocks

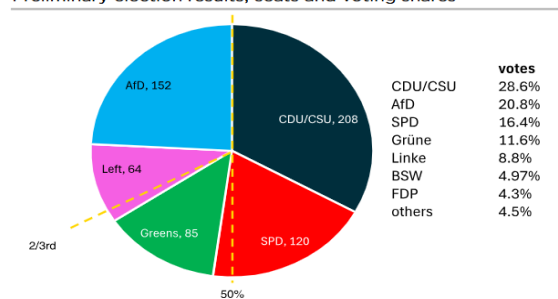
MDAX is trying to recover from years-long downtrend versus Stoxx 600

■ Deutsche Börse AG DAX Mid-Cap Index / STOXX Europe 600 Price Index EUR



Two-party government, but complicated 2/3 majority for debt brake reform

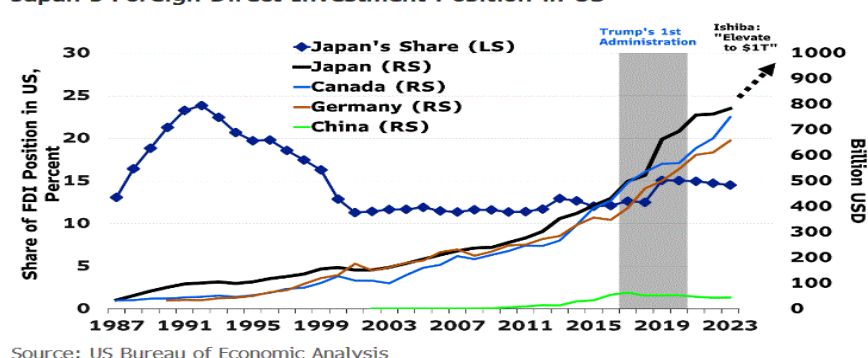
Preliminary election results, seats and voting shares



Japan

Bloomberg reported that Japan will increase FDI to the United States to garner an exemption from tariffs. PM Ishiba reportedly offered to boost Japan's FDI to \$1 tn (2023: \$783 bn), with a focus on the defense, AI, auto, and semiconductor sectors, in an attempt to receive an exemption from various US tariffs. The broad 25% steel tariff is likely to be implemented March 12, while other US tariffs could be announced by early April. However, it remained unclear whether President Trump had accepted this deal and whether it would apply to all US tariffs. Japanese markets were closed for a public holiday.

Japan's Foreign Direct Investment Position in US



Emerging Markets

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EMEA equities traded mostly lower this morning while currencies were mixed. Stock markets in Poland (-0.9%) and South Africa (-1%) declined. Both the Hungarian forint (+0.4%) and Polish zloty (+0.3%) strengthened against the euro. Elsewhere, S&P affirmed Kazakhstan's sovereign rating at BBB- with a stable outlook, while forecasting Kazakhstan's GDP to expand 4.9% in 2025 and 3.4% in 2026 on the back of increased oil production and government spending. Moody's downgraded Senegal to B3 from B1 and changed the outlook to negative last week, after Senegal's Court of Auditors affirmed that public debt was 99.7% of GDP in 2023, around 25 percentage points higher than previously published.

In Asia, most currencies gained. The Chinese yuan has strengthened in recent weeks, trading at close to 7.25 per dollar on Monday after falling to as low as 7.33 in January. However, most Asian equities declined (EM Asia: -1.2%) on Monday, after President Trump announced additional efforts to curb Chinese investment into several US sectors, including tech, infrastructure, and energy, among others. Onshore Chinese stocks fell 0.2% (CSI300).

In Latin America, regional currencies were mixed last week following the rally in US Treasury markets. The Colombian peso and Peruvian sol gained, while the Mexican peso and Brazilian real posted small losses. **Mexico's Q4 GDP came in as expected at -0.6% q/q on Friday.** Goldman Sachs analysts noted that there is a significant probability of a technical recession and the risks for the Mexican economy are to the downside. They also highlighted Banxico's MPC minutes, and suggested that monetary policy has "entered a new stage that allows for a faster removal of some of the current very restrictive stance". Ex-ante real rates in Mexico currently stand at 5.6%, 2% above the upper limit of the neutral rate estimate range.

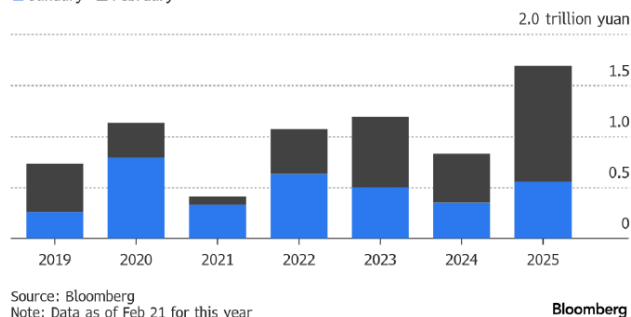
China

Chinese local governments have issued a record amount of bonds YTD to refinance off-balance sheet debt. Bloomberg data showed that bond issuance reached RMB1.69 tn (\$233 bn) in the first two months of 2025, the highest on record. Over 40% of this issuance aims to replace off-balance sheet debt following the plan announced in 2024 to allow regional authorities to swap RMB6 tn over three years. The increase in supply also has contributed to tighter short term funding conditions, with the 7-day repo rate remaining above 2% in recent weeks. Some market participants are watching to see whether the central bank will inject additional liquidity through open market operations, especially with more than RMB1.5 tn in reverse repos maturing this week. Nomura analysts highlighted that a very low excess reserve ratio (Q4 2024: 1.1%) will exacerbate funding strains. **Chinese 10y government bond yields rose to 1.8%, the highest since December.** Elsewhere, stock markets were slightly lower, but the property sector outperformed after news on Friday that Vanke received additional liquidity support of RMB4.2 bn from its major state-backed shareholder Shenzhen Metro Group.

Record Issuance

China's local governments quicken pace of bond sales

■ January ■ February



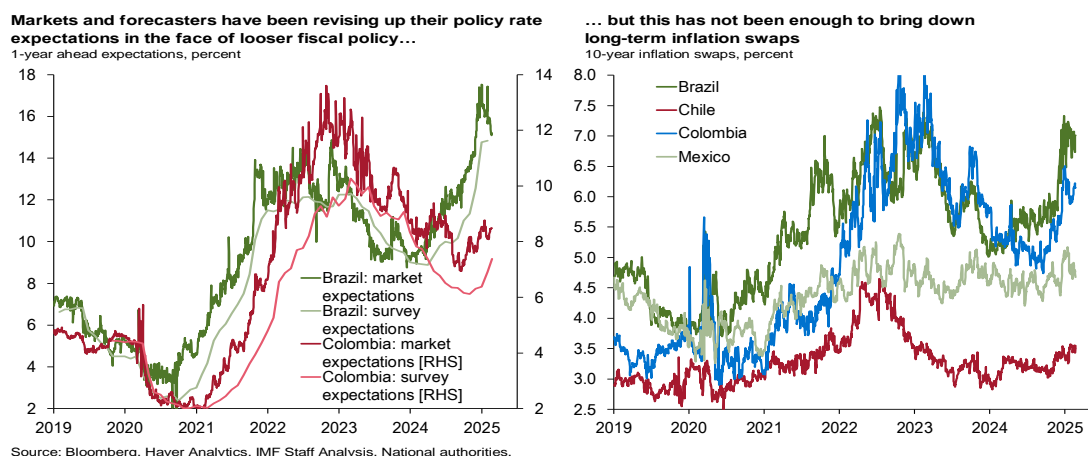
Elevated Funding Costs Drive China Bond Yields Higher

■ China's 10-year bond yield - Bloomberg generic ■ 7-day repo rate



Brazil and Colombia

Elevated long-term inflation swaps suggest fiscal uncertainty in Brazil and Colombia remains a concern. Analysts have raised their forecasts and markets have been repricing their expectations for short term interest rates in recent months in response to upside inflation risks. Inflation swaps have continued to climb as fiscal and monetary policy point in opposite directions. Concerns about excessively loose fiscal policy also have been a headwind for financial assets at times over the past year. However, counterintuitively, Colombian equities have gained significantly this year on hopes for a change in government, according to analysts. Brazilian stocks also have rebounded from their lows amid depressed valuations.

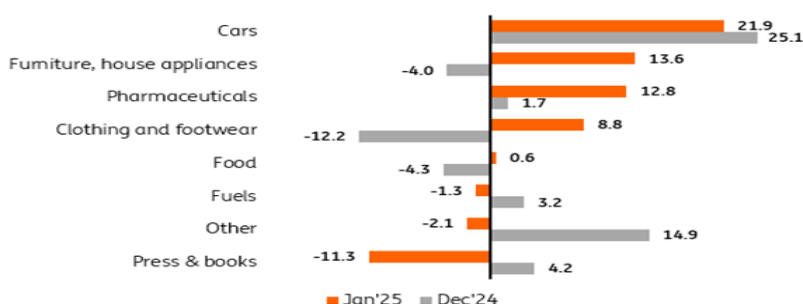


Poland

The zloty advanced (+0.3%) against the euro after retail sales data surprised on the upside at 6.1% y/y for January (versus 2.5% expected, 2.7% previous). In real terms, retail sales expanded 4.8% y/y in January, up from 1.9% y/y in December, driven by increased sales of durable goods, which had struggled in 2024. ING analysts expect consumption growth to accelerate to 3.5% y/y in Q1 2025 from 3.2% y/y in Q4 2024, though they warn that slower wage growth, lower pension indexation, and higher inflation (headline inflation rose to 5.3% y/y in January) will likely weigh on consumption growth later in 2025. **The zloty has appreciated against the euro by 3% YTD, driven by market optimism around peace talks on Ukraine.** However, ING analysts think the risks for CEE currencies are tilted towards the downside given the high uncertainty around peace talks. Deutsche Bank analysts also highlighted the absence of representatives from Ukraine and the European Union at recent peace talks. In addition, while Ukraine's reconstruction would likely have a significant positive spillover for growth in Poland, the need for higher defense spending will make fiscal sustainability more challenging.

Sales of durable goods improved in January

Retail sales of goods (real), %YoY

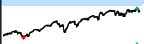











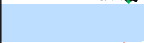



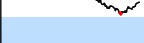



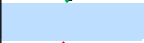
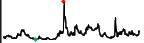

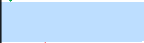



Source: GUS.

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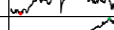
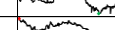


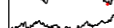


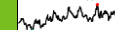
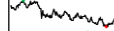



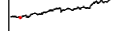




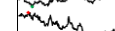





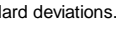


Global Financial Indicators

2/24/25 8:10 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		6,022	-1.7	-1.5	-1.3	18.3	2
Europe		5,468	-0.1	-0.9	4.8	12.2	12
Japan		38,777	0.3	-1.0	-2.9	-0.8	-3
China		3,970	-0.2	0.6	3.6	13.8	1
Asia Ex Japan		77	0.1	2.4	4.8	14.3	6
Emerging Markets		45	-0.3	1.9	4.5	10.6	7
Interest Rates			basis points				
US 10y Yield		4.4	1	-4	-18	19	-13
Germany 10y Yield		2.5	2	0	-8	13	12
Japan 10y Yield		1.4	0	4	20	71	33
UK 10y Yield		4.6	2	6	-4	55	2
Credit Spreads			basis points				
US Investment Grade		113	0	2	-3	-11	-7
US High Yield		316	-3	8	23	-45	-12
Exchange Rates			%				
USD/Majors		106.6	0.0	-0.1	-0.8	2.6	-2
EUR/USD		1.05	0.1	-0.2	-0.3	-3.5	1
USD/JPY		149.8	0.4	-1.1	-4.0	-0.6	-5
EM/USD		44.5	0.1	0.2	1.6	-4.4	4
Commodities			%				
Brent Crude Oil (\$/barrel)		74.4	0.0	-1.1	-4.1	-1.8	0
Industrials Metals (index)		147.3	-0.7	-0.5	2.1	7.3	5
Agriculture (index)		60.8	-0.6	-1.0	3.2	5.7	7
Implied Volatility			%				
VIX Index (%, change in pp)		17.7	-0.5	2.9	2.9	4.0	0.4
Global FX Volatility		8.1	0.1	0.2	0.1	1.5	-1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		84	-1	0	-2	-21	-2
Italy		114	6	8	5	-30	-2
France		75	0	2	1	28	-8
Spain		63	0	2	1	-26	-7

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

Emerging Market Financial Indicators

Last updated: 2/24/2025 8:12 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		7.25	0.0	0.2	-0.1	-0.7	0.7		1.8	3	10	10	-65	9
Indonesia		16275	0.2	-0.4	-0.6	-4.0	-1.1		6.7	-2	-5	-34	10	-30
India		87	0.0	0.2	-0.6	-4.4	-1.3		7.1	-7	-10	-8	-14	-28
Philippines		58	0.2	0.4	0.9	-3.0	0.0		5.1	0	1	5	-31	26
Thailand		34	0.3	0.6	0.4	7.8	1.8		2.3	-1	-2	-10	-25	1
Malaysia		4.41	0.2	0.5	-0.8	8.3	1.4		3.8	0	0	-1	-9	-2
Argentina		1060	-0.2	-0.1	-1.3	-20.7	-2.8		27.6	38	108	268	-4748	-152
Brazil		5.72	0.2	-0.1	3.4	-12.9	8.1		14.6	-17	-27	-65	435	-130
Chile		945	0.2	0.3	4.0	4.6	5.3		5.8	-6	-6	8	46	14
Colombia		4095	-0.3	0.8	2.0	-3.3	7.6		11.5	-4	-12	6	174	-29
Mexico		20.42	0.0	-0.6	-0.7	-16.3	2.0		9.8	-11	-7	-34	39	-55
Peru		3.7	-0.4	0.4	1.2	3.0	1.5		6.5	1	#####	-27	-29	-17
Uruguay		43	0.1	1.1	1.3	-8.3	2.8		9.7	-2	-2	0	66	5
Hungary		384	0.4	-0.2	1.3	-6.5	3.6		6.4	-6	1	-17	43	1
Poland		3.96	0.6	0.2	1.4	0.3	4.3		5.6	-1	12	-4	45	1
Romania		4.8	0.1	-0.2	-0.4	-3.7	1.0		7.4	-1	6	-42	107	9
Russia		87.9	0.7	4.1	11.3	5.2	29.1							
South Africa		18.3	0.2	0.3	0.3	5.1	2.7		10.7	-5	7	17	-77	21
Türkiye		36.44	0.0	-0.6	-2.1	-14.6	-3.0		28.9	43	15	132	68	-78
US (DXY; 5y UST)		107	0.0	-0.1	-0.8	2.6	-1.7		4.28	1	-4	-14	1	-10

	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		3,970	-0.2	0.6	3.6	13.8	0.9		93	-1	-2	-56	-3	
Indonesia		6,750	-0.8	-1.2	-5.8	-7.5	-4.7		98	2	4	-4	7	
India		74,454	-1.1	-2.0	-2.3	1.8	-4.7		90	-1	2	-10	4	
Philippines		6,096	0.0	1.7	-3.2	-11.8	-6.6		92	2	6	7	13	
Thailand		1,236	-0.8	-1.6	-8.7	-11.6	-11.7							
Malaysia		1,584	-0.4	0.1	0.7	2.3	-3.5		73	4	2	-8	3	
Argentina		2,364,530	-1.9	-1.0	-7.9	113.9	-6.7		720	44	82	-1066	83	
Brazil		127,128	-0.4	-1.1	3.8	-1.8	5.7		223	6	-3	12	-24	
Chile		7,326	-0.2	0.3	3.6	18.4	9.2		124	4	5	-2	11	
Colombia		1,631	-0.2	4.0	15.2	26.4	18.2		324	11	9	21	-2	
Mexico		53,739	-1.0	-0.6	4.6	-5.2	8.5		306	10	2	-21	-6	
Peru		28,738	-1.6	-2.8	-1.4	0.4	-0.8		144	5	7	2	3	
Hungary		87,509	-0.6	-0.3	2.7	32.1	10.3		152	3	-3	-7	-3	
Poland		91,948	-1.3	-0.6	7.1	10.4	15.5		116	6	3	23	4	
Romania		17,518	0.0	-0.7	2.7	10.0	4.8		247	11	-10	52	12	
South Africa		87,842	-1.2	-0.6	4.2	18.4	4.5		305	7	9	-32	12	
Türkiye		9,669	0.7	-1.7	-4.3	3.1	-1.6		269	11	-5	-39	10	
EM total		45	-1.0	1.9	4.5	10.6	7.4		369	10	10	31	5	

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

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