Global Markets Monitor

GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

TUESDAY, FEBRUARY 4, 2025
LEAD EDITOR: BENJAMIN MOSK

- **Markets whipsawed as tariff implementation for Canada and Mexico delayed** (link)
- **Despite relief, trade policy uncertainty remains high** (link)
- **Hong Kong SAR-listed mainland stocks gained after China's measured tariff retaliation** (link)
- **French 10-year spreads narrow with focus on 2025 budget** (link)

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Two Barks and One Bite

News flows on tariff talks caused gyrations in markets. Yesterday, planned US tariffs on Mexico and Canada were postponed by one month, while a 10% tariff on China became effective today, invalidating the "barking dogs don't bite" mantra that some analysts expected at the start of the current US presidency. Agreements were reached over the course of Monday during calls between the countries' leaders, whereby both Canada and Mexico committed to border security measures. On Monday morning, global equity markets sold off with most major indices declining—at peak—by between 2–3%, reflecting the potential global growth implications of a trade war. Automotives and auto parts stocks led the sell off, together with the tech-sector, which was left vulnerable after last week's Deepseek saga. The US president, asked about the market's reaction, stated that "Tariffs don't cause inflation, they cause success." Nonetheless, energy prices—notably for oil products—rose markedly and the US Treasury curve tilted upwards in the front end, by around 7 bps. Larger swings were seen in the sovereign curve of Canada, which showed a downward level shift of almost 18 bps. The US dollar initially strengthened versus most other currencies, with some emerging market currencies—notably the Mexican peso—underperforming. However, most of these moves (partially) reversed after the postponements were announced. And while US tariffs on China came into effect today, the announced counter tariffs are seen as relatively mild, and talks are ongoing. Later today, the US Job Openings and Labor Turnover Survey (JOLTS) will be released.

Key Global Financial Indicators

Last updated: 2/4/25 8:09 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		5995	-0.8	0	1	21	2
Eurostoxx 50		5239	0.4	1	8	13	7
Nikkei 225		38798	0.7	-1	-3	7	-3
MSCI EM		42	-0.7	1	1	10	1
Yields and Spreads			bps				
US 10y Yield		4.58	2.9	5	-1	56	1
Germany 10y Yield		2.42	3.7	-14	0	18	6
EMBIG Sovereign Spread		318	2	-4	-2	-76	-7
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		43.5	0.1	0	2	-7	2
Dollar index, (+) = $ appreciation		108.6	-0.4	1	0	4	0
Brent Crude Oil ($/barrel)		75.0	-1.3	-3	-2	-3	0
VIX Index (%, change in pp)		18.1	-0.5	2	2	4	1

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

Mature Markets

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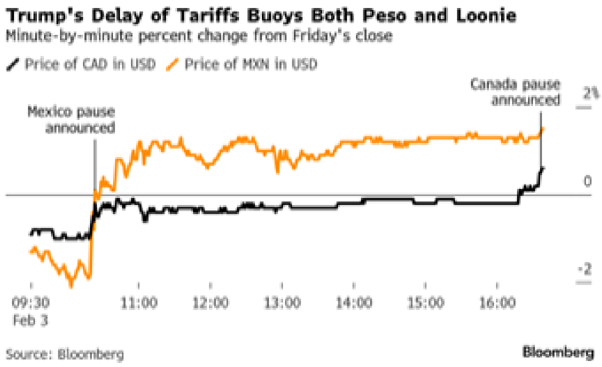
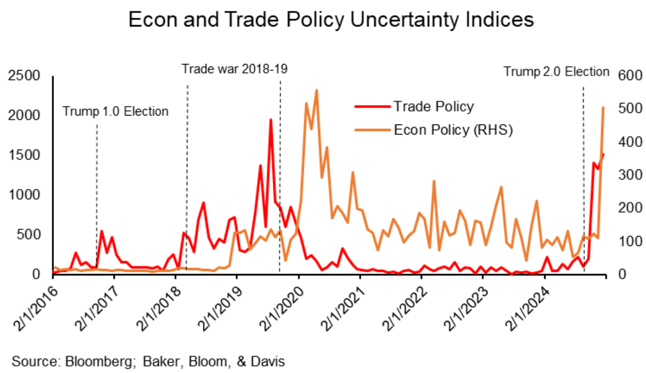
United States

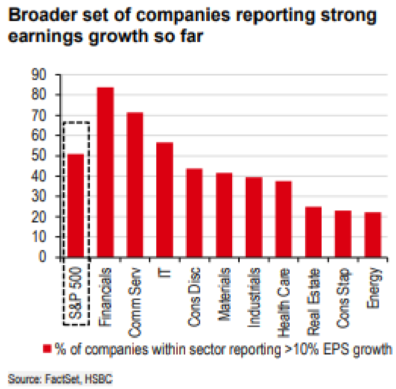
Markets whipsawed as Mexican and Canadian tariff implementation gets delayed. The US domestic session opened on Monday morning with global equities in selloff mode, US rates "twist-flattening," and impacted currencies (MXN, CAD) sharply weaker as traders digested the ramifications of Trump's tariff announcements over the weekend. As news broke in the morning that tariffs on Mexico would be delayed by 30 days, markets broadly rallied and began retracing some of their losses. Similar news broke for Canada in the late afternoon. These delays followed separate conversations between the US president and Mexican and Canadian leaders, who both agreed to increase border control measures as well as continue general negotiations. The S&P500 index approached a 2% decline before paring its slide to around -0.8%, and MXN and CAD currencies discretely strengthened. Meanwhile, after initially climbing by as much as 7bps higher on increased inflation expectations, 2-year Treasury yields ended the day 4bps higher while 10-year yields ended relatively unchanged after dropping by as much as 7bps intraday on growth concerns.

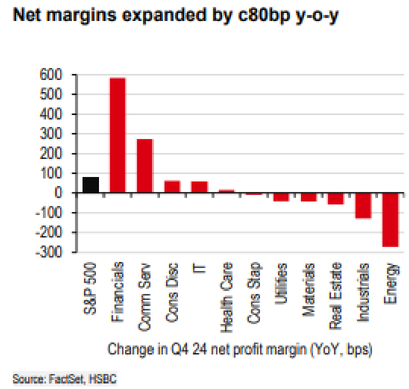


Despite Monday's market relief from the tariff delay, trade policy uncertainty remains high and may continue to rise, perhaps surpassing the record highs of the 2018–19 tariff war episodes. Analysts note that prior to last weekend, many market participants had taken Trump's tariff threats as negotiation tactics and did not anticipate the possibility of implementation with the speed and scope that was announced on Saturday. JPMorgan notes that, despite Trump waving off tariff implementation against Canada and Mexico for now, policy uncertainty may be "hard to put back in the bottle." The implications for the path of Fed rate policy as a function of a trade war are also uncertain; traders only slightly readjusted their pricing of cuts for 2025 to 39bps versus Friday (42bps). Some market participants believe that the Fed may sit on the sidelines as trade policy developments play out.



Strong Results Mark 4Q 2024 Earnings Cycle. Almost half of all companies by market cap have announce their Q4 results so far, with the S&P500 tracking 13% earnings growth on a blended basis, higher than the 12% consensus estimate according to analysts at HSBC. More than half of reported companies so far have delivered strong EPS growth greater than 10% y-o-y. Financials have seen the most earnings growth, driven by investment banking and markets income, falling deposit costs, and continued robust credit quality. Meanwhile, energy and industrial sectors have seen the most earnings underperformance.

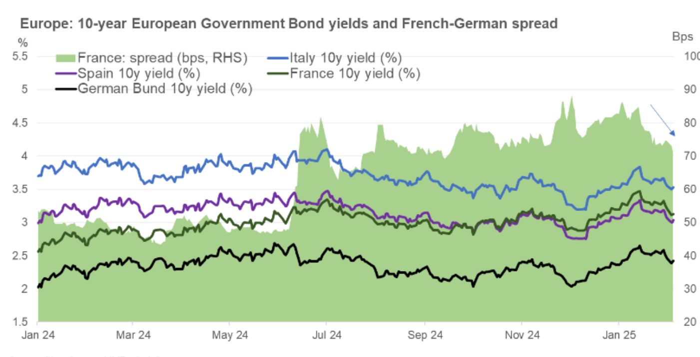




Euro Area

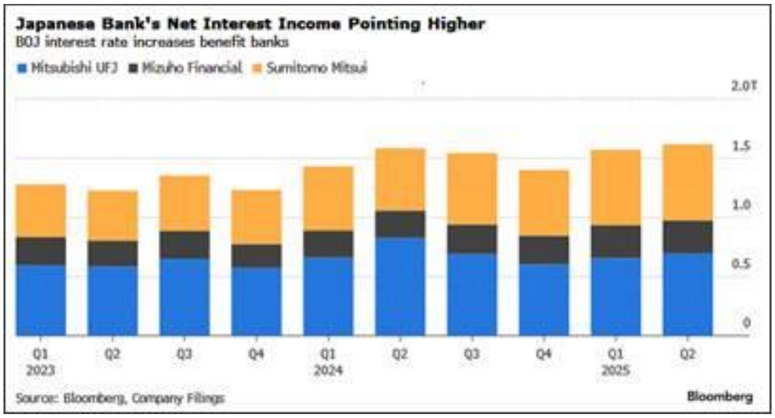
European equities were mixed with the Stoxx 600 index retracing opening losses, while government bond yields edged higher and the euro was marginally weaker against the dollar. The Stoxx 600 index was around 0.3% lower in early morning trade, but losses were pared later in the session. The technology sector (+1.4%) was outperforming, while the financial services sector was the largest declines (-1.0%), with UBS Group AG (-6%) underperforming, despite the bank posting $770mn in net profit and sharing plans to buy back $3bn of its shares in 2025. Bloomberg analysts argue that progress on UBS's integration of Credit Suisse is being overshadowed by uncertainty around the upcoming authorities' decision on capital requirements. The share prices of European car manufacturers continued to decline with the sector down around -0.5%.

French 10y sovereign spreads versus the bund narrowed with market focus on discussions around the 2025 budget. Contacts note rapid progression around France's 2025 budget discussions, with the commission of lower and upper houses last Friday agreeing on the details of the bill. Yesterday, French Prime minister Bayrou used article 49.3 of the constitution in order to force the 2025 budget through Parliament without a vote. The far-left France Unbowed (LFI) said that they would respond with a no confidence motion, with voting expected on Wednesday. Commerzbank analysts expect that the Social leadership would not support the motion, which thus should keep the government from collapsing. JPMorgan analysts also see the 2025 budget as likely to go through, but caution that political instability remains high. The spread between the 10-year French sovereign bond yield and the equivalent German yield is trading at around 71bps, roughly 12bps narrower than at the start of the year.



Japan

Governor Ueda reiterated that Bank of Japan (BOJ) is seeking "a sustainable, stable 2% growth in prices" to the Budget Committee of the House of Representatives. Both latest surveys by Bloomberg and Nomura indicate that most analysts and bond market participants expect the BOJ to deliver another rate hike by September. The rate hike probability by July 2025 as indicated by overnight index swaps slightly increased today, while 10y yields rose 3bps to 1.27%, up 18bps year-to-date. Yen depreciated (-0.3%) on Tariff delays, while Japanese equities advanced (Nikkei 225: +0.7%), off an intraday high of +1.8%, thanks to positive earnings surprises for Japanese banks (Mitsubishi UFJ 2024Q4: ¥491bn vs ¥322bn consensus), boosted by rising interest rates, a buoyant domestic stock market and a weaker yen.



Emerging Markets back to top

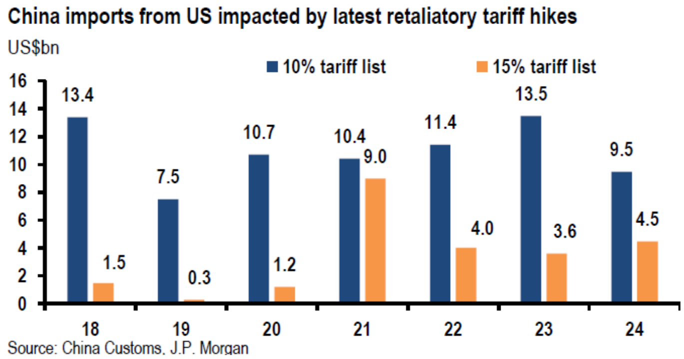
EMEA currencies rebounded while equities traded mostly higher on the back of revived sentiment from delay of US tariffs. In CEE, equities outperformed in Czechia (1.5%) where the central bank is expected to ease its policy rate by -25bps to 3.75% on Thursday, and in Poland (0.6%) where the central bank is expected to hold its rate at 5.75% tomorrow, while among currencies the Hungarian forint advanced the most against the euro (+0.25) trading at HUF407.53/€. The South African rand was slightly weaker (-0.1%) against the dollar at 18.76/$ while the lira little changed in Türkiye at 35.96/$.

Asian equities and currencies mostly rebounded from yesterday's losses. A delay of tariffs on Canada and Mexico for a month boosted market sentiment on hopes for a similar tariff pause on Chinese products. While some gains were trimmed later due to the disappointment that tariffs went into effect on China, the markets appeared to speculate on potential negotiations between the two nations. The Malaysian ringgit (+0.7%) and Indonesian rupiah (+0.6%) led the currency appreciation, while equities in the Philippines (+3.5%) and Hong Kong SAR (+2.8%) outperformed.

Latin American equities retreated and currencies advanced. Stocks declined in Mexico (-1.6%), Colombia (-1.1%), and Peru (-0.5%). Currencies appreciated in Brazil (+0.6%), Mexico (+1.5%), Colombia (+1.2%), and Peru (+0.6%), while the Chilean peso weakened 0.7% against the US dollar.

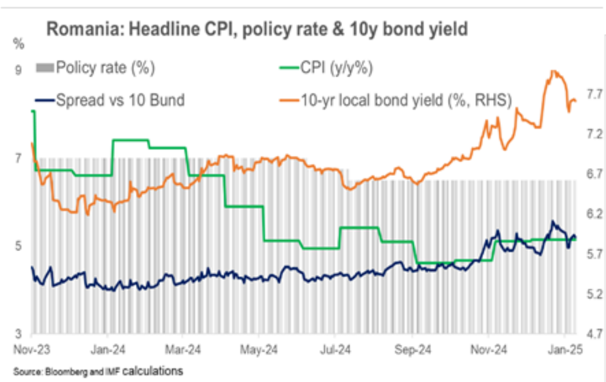
China

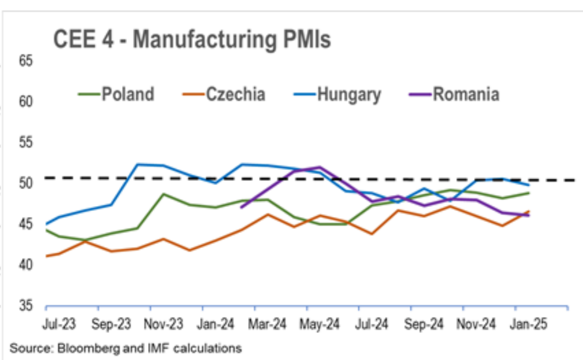
Mainland China-related shares listed in Hong Kong SAR gained as investors speculate that China's measured retaliation may help prevent the worst-case trade war scenario. Hong Kong SAR listed Chinese equities (HSCEI) gained almost 4% during the morning session alongside 0.1% appreciation of CNH against the USD, after the pause on additional tariffs on imports from Canada and Mexico, and the news that the US administration is likely to have discussions with China. The advancement was trimmed after the US tariff went into effect by noon as the deadline passed, but regained in the afternoon (HSCEI: +3.5%, CNH: +0.3%), as China's retaliation, new tariffs on much narrower scope of American products compared with US tariffs, was viewed as a sign that China was still trying to set ground for a deal to avert a broader trade war. However, JP Morgan economists note the bar is high for the two nations to strike a deal, as bargaining beyond trade might be involved, given that US export control in high-tech products has made it difficult for China to increase imports to meet the US demand, while Nomura analysts predict the tariffs on China will eventually rise by an additional 35% in 2025. China's onshore markets remained closed for Lunar Calendar New Year and will reopen tomorrow.



Romania

The leu and domestic government bond yields were little changed today, the currency trading tight against the euro at RON4.97/€ and 10y yields at 7.6%, after today's December data showed producer prices continuing to fall in Romania with the PPI index printing at -0.7%y/y from -0.3% in November. Increased political uncertainty, with Romania's government struggling to pass a draft budget to reduce the deficit to 7% of GDP in 2025, has pushed up yields forcing the country to offer euro and dollar denominated bonds at significantly higher cost than at previous issuances. Romania plans to remain one of the biggest issuers of foreign debt in CEE with 2025 targeted sales of €13bn, after raising a record €18bn in 2024. Yesterday Romania returned to offer two Eurobonds for the first time in 2025, for a total amount of €1.4bn each, with the 5y euro note returning a yield of 5.28% (coupon rate 5.25%) and the 9y security a 6.33% yield (coupon rate 6.25%).





Emerging Market Bond and Equity Flows

Emerging Markets bond funds turned to inflow last week (+$64mn, from -$651mn). Both hard currency fund (+$31mn, from -$160mn), and local currency fund (+$33mn, from -$491mn) turned to inflow. Bond ETFs outflows increased (-$173mn, from -$29mn), while non-ETFs turned sharply to inflows (+$237mn, from -$622mn). EM equity funds outflows decreased significantly (-$640mn, from -$1.4bn). Equity ETFs saw increased inflows (+$263mn, from -$68mn). Non-ETFs outflows decreased (-$903mn, from -$1.3bn). Across regional equity funds, there were outflows in Asia ex-Japan (-$745mn), while inflows in Latam (+$81mn), and EMEA (+$100mn). The year-to-date flows currently stand at -$2.8bn and -$8.3bn for bonds and equities, respectively.

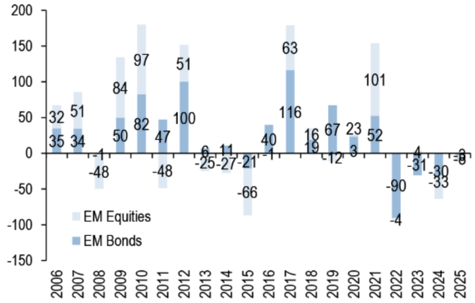
Figure 1: Weekly cross-asset flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	EM Bonds and Equities		-0.6	-11.1
	EM Bonds		0.1	-2.8
	Hard Ccy		0.0	-1.9
	Local Ccy^		0.0	-0.9
	o.w. EM ex-China		0.1	-0.6
	o.w. China		0.0	-0.3
	EM Equities		-0.6	-8.3
	US HG		3.3	6.4
	US HY		1.0	2.4
	Global Equities		14.9	45.2
	EM Bond and Equity ETFs		0.1	-3.9
	EM Bond ETFs		-0.2	-1.1
	EM Equity ETFs		0.3	-2.9
	Non-resident EM flows*		-1.4	-8.4

Figure 2: EM bond and equity fund flows

USD billion



*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.*

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Global Financial Indicators

2/4/25 8:09 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		6,004	-0.8	-1.0	1.0	21.1	2
Europe		5,239	0.4	0.8	7.5	12.6	7
Japan		38,798	0.7	-0.6	-2.7	6.7	-3
China		3,817	-0.4	-0.3	1.1	19.3	-3
Asia Ex Japan		72	-0.9	0.6	-1.0	13.6	0
Emerging Markets		42	-0.7	0.6	0.6	9.7	1
Interest Rates					basis points		
US 10y Yield		4.6	3	5	-1	56	1
Germany 10y Yield		2.4	4	-14	0	18	6
Japan 10y Yield		1.3	3	8	18	61	18
UK 10y Yield		4.5	6	-7	-5	63	-2
Credit Spreads					basis points		
US Investment Grade		117	0	0	-3	-11	-3
US High Yield		300	-3	-2	-11	-85	-28
Exchange Rates					%		
USD/Majors		108.6	-0.4	0.7	-0.3	4.5	0
EUR/USD		1.03	-0.1	-0.9	-0.5	-3.8	0
USD/JPY		155.3	0.4	-0.2	-1.5	4.5	-1
EM/USD		43.5	0.1	-0.2	2.1	-7.5	2
Commodities					%		
Brent Crude Oil ($/barrel)		75.0	-1.3	-1.9	-1.2	2.0	1
Industrials Metals (index)		143.0	0.1	1.1	3.1	4.7	2
Agriculture (index)		60.0	-0.3	1.7	6.8	-1.1	5
Implied Volatility					%		
VIX Index (%, change in pp)		18.1	-0.5	1.7	2.0	4.2	0.7
Global FX Volatility		8.8	0.0	0.6	-0.4	1.2	-0.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		86	-1	0	5	-21	1
Italy		111	-1	1	-6	-47	-5
France		71	-2	-2	-15	21	-12
Spain		62	0	0	-7	-31	-8

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)						
2/4/2025	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		7.24	0.0	0.4	0.7	-0.9	0.8		1.7	0	0	4	-79	-3
Indonesia		16345	0.6	-1.1	-0.9	-3.9	-1.5		7.0	3	4	1	47	0
India		87	0.1	-0.6	-1.4	-4.6	-1.7		7.1	-1	1	-27	-5	-24
Philippines		58	0.5	0.1	-0.1	-3.5	-0.9		5.1	-1	1	19	-36	21
Thailand		34	0.6	0.2	2.3	5.8	0.8		2.4	3	5	5	-31	6
Malaysia		4.44	0.7	-1.1	1.5	6.9	0.6		3.8	0	2	0	4	0
Argentina		1054	0.0	-0.3	-1.8	-21.3	-2.1		26.2	39	90	-19	-4757	-292
Brazil		5.82	-0.2	0.8	5.1	-14.4	6.1		14.9	-14	-49	-56	470	-105
Chile		982	0.6	1.2	3.0	-2.7	1.3		5.8	1	12	20	53	15
Colombia		4164	-0.1	1.3	4.4	-4.7	5.8		11.5	0	21	-19	178	-30
Mexico		20.46	-0.4	0.5	-0.7	-16.3	1.8		10.1	0	3	-25	67	-27
Peru		3.7	0.6	1.0	1.7	4.2	0.9		6.7	1	-2	3	9	7
Uruguay		44	-0.4	-0.8	0.6	-10.4	0.6		9.7	-2	-2	-1	46	2
Hungary		394	0.2	-0.8	1.6	-8.7	0.9		6.4	3	-3	-13	56	1
Poland		4.08	0.1	-1.4	0.3	-1.0	1.2		5.6	2	-4	-5	54	-1
Romania		4.8	-0.1	-1.0	-0.6	-3.9	-0.3		7.5	5	-13	28	130	24
Russia		100.0	-0.2	-2.0	7.5	-9.4	13.5							
South Africa		18.8	-0.2	-0.5	-1.1	1.5	0.3		10.6	7	-1	20	-72	15
Türkiye		35.95	0.0	-0.6	-1.8	-15.0	-1.7		28.1	72	74	-116	-5	-162
US (DXY; 5y UST)		109	-0.4	0.7	-0.3	4.5	0.1		4.38	2	5	-3	40	0

	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		3,817	0.0	-0.3	1.1	19.3	-3.0		96	1	0	-63	0
Indonesia		7,073	0.6	-2.2	-1.3	-1.7	-0.1		96	-1	2	-17	5
India		78,584	1.8	2.7	-0.8	9.6	0.6		90	-2	6	-31	4
Philippines		6,089	3.5	-1.7	-7.8	-9.5	-6.7		91	0	8	0	12
Thailand		1,301	-0.3	-3.3	-6.0	-6.0	-7.1						
Malaysia		1,565	0.7	-0.6	-4.0	3.5	-4.7		72	0	2	-18	2
Argentina		2,484,136	-3.1	1.8	-9.0	88.7	-2.0		638	-9	52	-1288	1
Brazil		125,970	-0.1	1.5	6.3	-1.0	4.7		223	-3	-10	-4	-24
Chile		7,224	0.1	2.7	7.8	20.5	7.7		122	1	9	-13	9
Colombia		1,505	-1.1	2.1	7.8	17.8	9.1		323	6	2	3	-3
Mexico		51,210	-1.6	-0.3	4.6	-12.1	3.4		310	-5	2	-22	-2
Peru		28,830	-0.5	-0.4	-1.5	6.5	-0.5		146	4	7	-7	5
Hungary		84,779	0.1	-0.2	6.3	29.8	6.9		149	-4	-8	-16	-6
Poland		86,682	0.9	0.6	6.4	8.9	8.9		110	-5	-3	1	-2
Romania		16,951	-0.1	-0.5	-0.5	8.4	1.4		247	-14	10	54	12
South Africa		86,393	1.1	2.3	2.0	16.1	2.7		300	-4	13	-50	7
Türkiye		9,879	1.1	-2.4	-1.9	14.0	0.5		260	-6	2	-101	1
EM total		42	0.5	0.6	0.6	9.7	1.4		357	-2	0	1	-8

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

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