- **US markets continue to hit record highs on hopes of global economic recovery** (link)
- **Chinese equities drop as coronavirus spreads and growth forecasts lowered** (link)
- **U.K. employment growth remains resilient** (link)
- **EM fund flows benefit from easing of trade tensions** (link)
- **Rising share of goodwill on US corporate balance sheets could be source of risk** (link)

US | Europe | Other Mature | Emerging Markets | Market Tables

Health Risk Concerns Dampen Risk Sentiment

A global health scare has weighed on markets today, despite positive economic data out of Europe. The posting of stronger-than-expected employment numbers in the UK and improving investor expectations in Germany were over-shadowed by news of the spread of a deadly new form of coronavirus in China. European equity markets are all trading on the weaker side today. Chinese equities are also down by close to 1.5% and US equity futures are pointing to a negative start this morning. On the political front, one of Libya's two warring factions has effectively shut down most of the country's oil production (about 1.2 mbbl/d). The impact on oil prices was minimal. Analysts attributed the muted reaction to well-supplied markets.

This week, central banks will be the focus, with the BOJ meeting today and the ECB meeting on Thursday. No major policy changes are expected but there is significant interest in the evolution of the rhetoric from the ECB under the new Chair, as well as the launch of the ECB's strategic policy review process. The Bank of Canada meets on Wednesday and the Norwegian central bank also meets on Thursday. **Meanwhile on the data front,** focus will be on the release of the US's Markit services and manufacturing reports (Friday) and existing home sales (Wednesday). PMIs will also be the focus in the euro area and the UK with fresh data due on Friday. Japan reports PMI data on Thursday.

Key Global Financial Indicators

Last updated: 1/21/20 8:35 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3330	0.0	2	3	25	3
Eurostoxx 50		3776	-0.6	0	0	21	1
Nikkei 225		23865	-0.9	-1	0	15	1
MSCI EM		46	-1.9	1	4	12	3
Yields and Spreads			bps				
US 10y Yield		1.78	0.0	-3	-13	-100	-13
Germany 10y Yield		-0.22	-0.5	-5	3	-48	-4
EMBIG Sovereign Spread		296	3	-2	2	-79	3
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		60.9	0.0	0	0	-4	-1
Dollar index, (+) = $ appreciation		97.4	-0.2	0	0	1	1
Brent Crude Oil ($/barrel)		64.2	-1.5	0	-3	2	-3
VIX Index (%, change in pp)		12.9	0.8	1	0	-5	-1

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

## United States		back to top

Stocks enjoyed yet another record close on Friday as the S&P 500 continued its advance beyond the 3300 level. Strong economic data from China and the US bolstered the current narrative of a global economy gradually recovering from the slowdown of 2019. In this context, Friday's strong housing starts report attracted more attention than usual as the numbers came in at their best levels in 13 years. Both single family and multifamily housing made solid gains and the results were robust across all regions of the country. The report assuaged worries in some circles about weakness in the housing sector. Some of the results in 2019 were fairly weak and the recent survey data found that consumers had a negative view of housing affordability despite the prevalence of historically low mortgage rates. Treasuries took their cue from the strong housing report by selling off and pushing yields 2-3 bps higher. In other news, the University of Michigan consumer confidence report was close to expectations (99.1 versus 99.3) and remains close to the highs for the current cycle. December's industrial production was slightly weaker than expected (-0.3% versus the consensus forecast of a 0.2% decline) and the November number was revised down to 0.8% from 1.1%.

U.S. Housing Starts: The Strongest in 13 Years
Source: Bloomberg
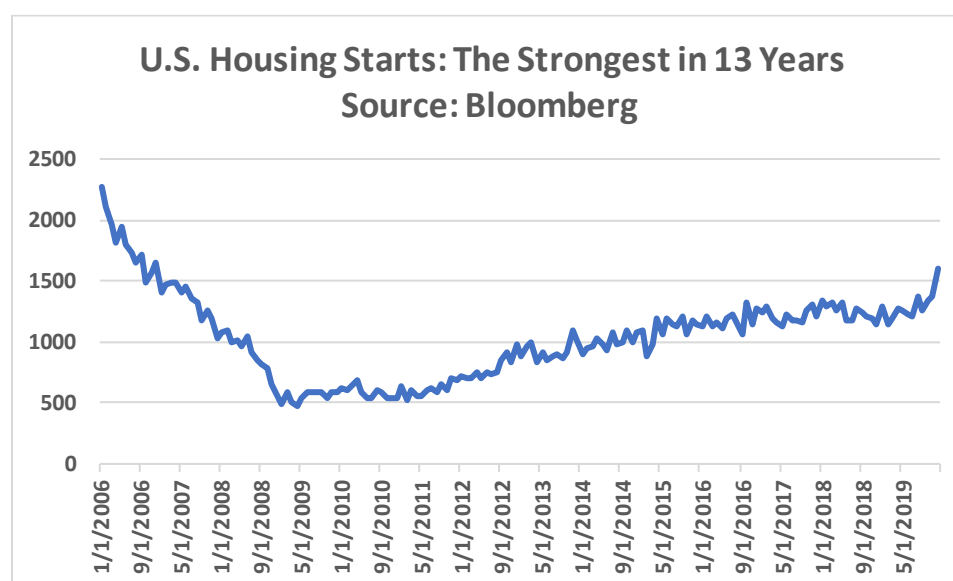
The growth of goodwill on the balance sheets of US non-financial corporations is attracting attention as a potential risk for the US corporate bond market. Goodwill is a balance sheet item that incorporates the intangible assets of a corporation such as brand power or reputation that cannot be directly measured. It has grown to 15% of all US corporate assets, which represents an all-time high. The volatile nature of goodwill can lead to a company experiencing material downgrades in credit worthiness if they face unexpected challenges in their business. The amount of goodwill on US balance sheets began to grow especially quickly after the 2014-2015 merger wave, and with those transactions now 4-5 years old there is a growing chance that disappointments in some proportion of those deals leading to material drawdowns of goodwill on the balance sheet. The growth of goodwill has been most pronounced in sectors such as energy and basis energy which are viewed as more vulnerable to a deterioration in creditworthiness.

FIGURE 1. **Goodwill as a Percent of Assets Has Grown for Index-eligible Non-financials**
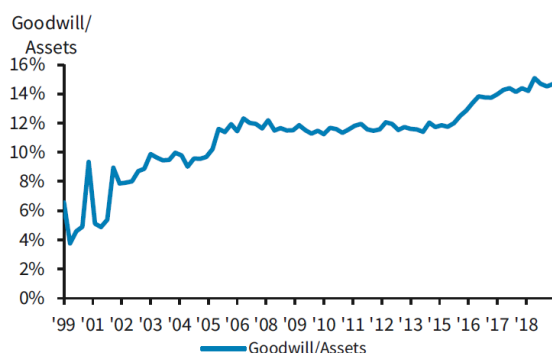

Source: Factset, Barclays Research

FIGURE 2. **Sector Distribution of Goodwill Impairments, 2019 Year-to-Date**
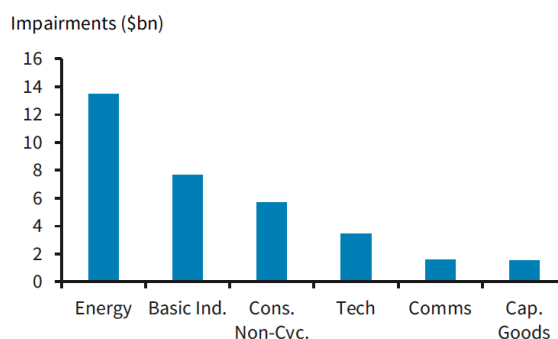
Source: Factset, Barclays Research

Excess supply in the US agency mortgage-backed securities (MBS) market has widened spreads relative to other sectors of the bond market. Generic MBS spreads are trading just 17 bps above corporates of similar duration and at 37 bps above super sovereign agencies, according to data from BMO, whose analysts point out that AAA agency MBS with an implicit government guarantee trade just 33 bps above similar-maturity BBB corporate bonds with much higher theoretical credit risk. This trend towards wide MBS spreads is especially notable due to the low level of volatility in the financial markets. MBS typically outperform in periods of low volatility and underperform when volatility moves higher, as holding MBS is equivalent to being short the underlying prepayment option. The rush of new supply has been caused by low mortgage rates, the consolidation in the banking sector and the Fed's withdrawal from its MBS QE purchases. The MBS market has grown more in the past three years than in the previous seven years following the global financial crisis and is one of the few sectors whose valuations have not become stretched as the search for yield enters a new phase of intensity. The highly technical nature of the market and the sophisticated analytics needed to manage MBS portfolios probably deters many investors, as well as residual distrust in the wake of the crisis.

Figure 3 - Duration-Adjusted MBS Spreads to IG and SSA (bp)
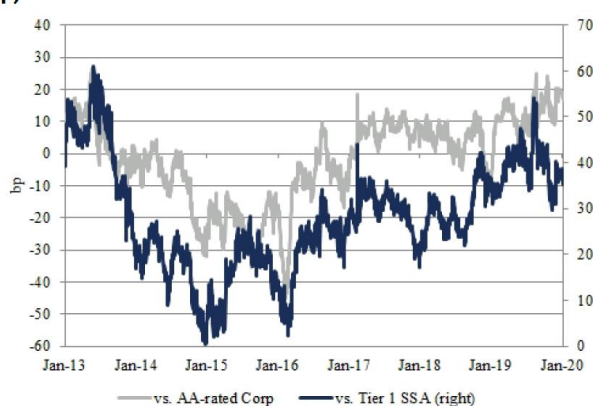
Source: BMO CM, TradeWeb, YieldBook

Figure 4 - BBB Spread to Duration-Adjusted MBS (bp)

Source: BMO CM, TradeWeb, YieldBook

Europe   back to top
Euro Area
Equities (-0.6%) fell. The euro was marginally stronger against the USD. Core yields were little changed as Italian spreads widened 3 bps.

The **ZEW investor expectations index for economic growth in Germany rose sharply** to 26.7 (15 expected). The jump marks the highest reading since 2015 even though some analysts warn that the expectations index often reflects recent equity market performance. The **ZEW index measuring current economic conditions also improved** to -9.5 (from 19.9 in December and compared to -13.5 expected) but remains below 2011-18 levels.

Germany: Forward-looking surveys continue to improve sharply
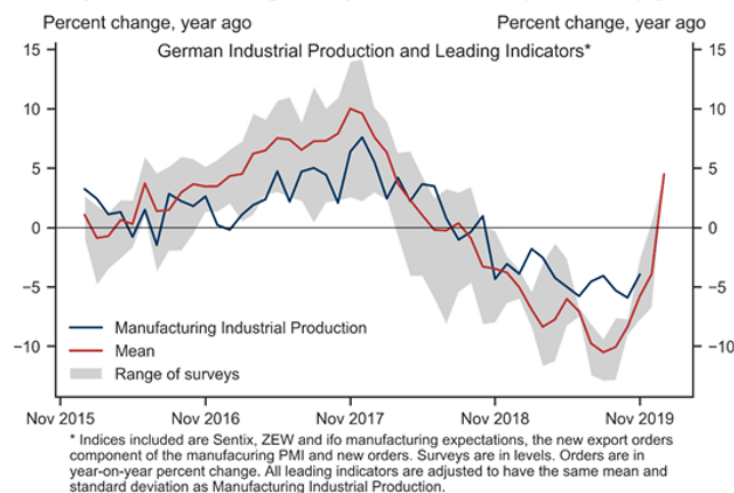
Source: Haver Analytics, Markit, Goldman Sachs Global Investment Research

Presidents Macron and Trump reportedly agreed to extend negotiations on a digital tax to be levied across OECD countries till the end of 2020.

Greece will try to negotiate a primary surplus target of 2%GDP from 2021 onwards (from 3.5%GDP currently).

United Kingdom
The labor market remains resilient with total employment expanding 208k on 3-m/3-m basis (110k expected) in November as firms have been hiring more workers. Markets continue to price in a 60% probability of a rate cut on January 30, but some contacts point out that resilience in the labor market numbers may give some MPC members reasons to pause. The pound gained 0.3% to $1.306.
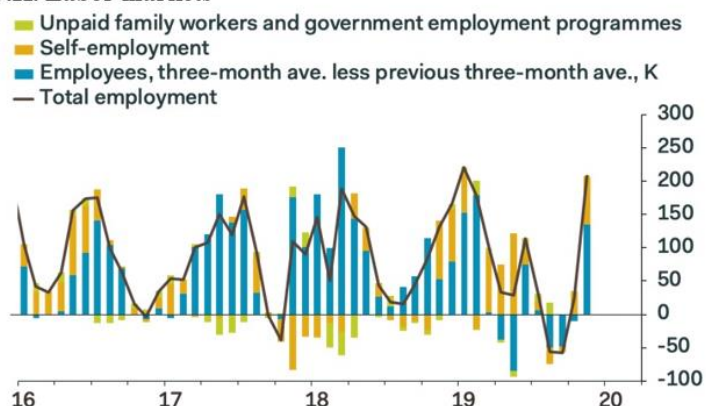
Source: Pantheon

## Other Mature Markets   back to top

Japan

The Bank of Japan kept its policy parameters intact as it raised its growth forecast. The BoJ will maintain its key short-term policy rate at -0.1% and the asset purchase targets unchanged. The MPC voted 7 to 2 for these measures. The BoJ also increased its growth forecast for 2020 on account of the government's recent $120 bn-fiscal stimulus. The median growth forecast within the MPC for FY 2019 is now 0.8%, up from 0.6% in October; for FY2020 the median projection is 0.9%, up from 0.7%. **The yield on the 10-year JGB inched down 1 bp to 0.005%, while the Topix (-0.5%) and Nikkei (-0.9%) both lost ground** as investors are becoming increasingly concerned about the spread of the coronavirus.

Source: Bank of Japan, Bloomberg Economics
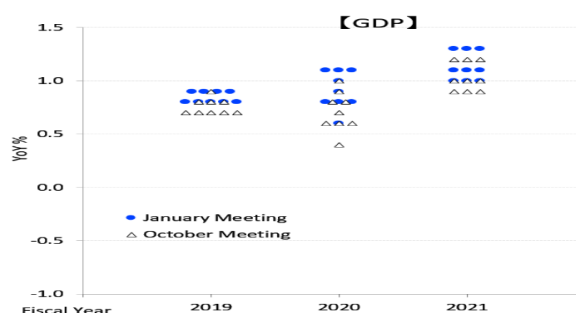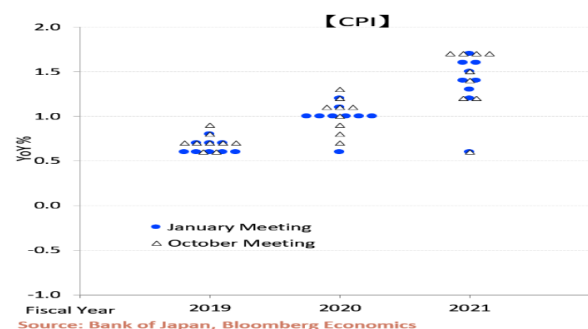
Emerging Markets   back to top

Asian equities posted sizeable drops as global investors are increasingly concerned about the spread of the deadly coronavirus (see below). Stocks in China dropped 1.4%, followed by the Philippines (-1.1%), South Korea (-1.0), and Thailand (-0.9%) where there have been two confirmed deaths. Currencies weakened to the US dollar, led by the South Korean won (-0.6%). In **EMEA**, bourses were mixed: losses in South Africa (-2.0%), Egypt (-1.0%), and the Czech Republic (-0.4%), contrasted with much smaller gains in UAE (+0.1%), Romania (-0.1%), and Bahrain (+0.1%). Currencies were stable. **Latin American stocks** were mixed Monday. Argentina (+1.7%) posted the largest gains of the region, followed by Brazil (+0.3%) and Mexico (+0.2%). Chile (-1.3%), on the other hand, saw large losses. Most currencies were stable to the US dollar, except the Mexican (-0.4%) and Colombian (-0.4%) pesos.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				
1/21/20 8:37 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		46.23	-1.9	1	4	12	3
MSCI Frontier Equities		31.23	0.4	2	3	12	3
EMBIG Sovereign Spread (in bps)		296	3	-2	2	-79	3
EM FX vs. USD		60.91	0.0	0	0	-4	-1
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.90	-0.5	0	2	-2	1
Indonesian Rupiah		13669	-0.2	0	2	4	1
Indian Rupee		71.21	-0.1	0	0	0	0
Argentine Peso		59.99	0.0	0	0	-37	0
Brazil Real		4.19	-0.1	-1	-3	-10	-4
Mexican Peso		18.72	-0.3	0	1	2	1
Russian Ruble		61.85	-0.5	-1	1	7	0
South African Rand		14.47	0.3	0	-2	-4	-3
Turkish Lira		5.93	-0.2	-1	0	-10	0
EM FX volatility		5.94	0.0	-0.4	-0.5	-3.2	-0.7

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

Emerging Markets

EM funds benefitted from easing concerns over trade tensions. EM bond and equity funds saw strong inflows of $2.7 bn and $3.9 bn over the past week, continuing robust inflows realized over the last 5 weeks and even longer for equity funds. ETFs and mutual funds both benefitted from these inflows. Flows into bond funds benefitted domestic currency, hard currency and blended currency funds, signaling a broad-based investor interest in EMs rather than particular appetites for specific currency exposures.
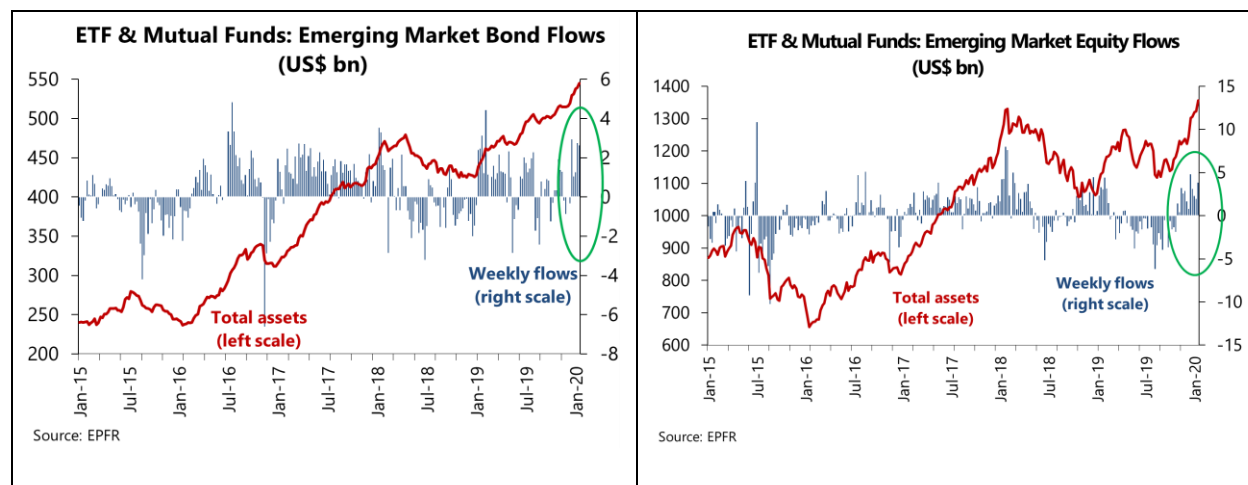
China

Chinese equities dropped as coronavirus spreads and growth forecasts for most regions is downgraded. Around 291 infectious cases and six deaths have been confirmed in China, while another 54 cases are suspected and 900 people are under observation, according to international newspapers. Concerns are mounting as the virus has entered a new phase in which it spreads from person to person. The national authorities are increasingly worried about a possible pandemic as the Chinese New Year approaches and many plan to travel across the country. Separately, **22 out of 31 Chinese regions have lowered their 2020 growth forecast**. Twelve of tose regions – accounting for around 40% of China's GDP – will grow at 6% or less, while another 9 provinces will see their GDP expand at a 6.0% to 6.5% clip. **Equities in Shanghai dropped 1.7% while those in Hong Kong plummeted 3.2%.**

Forecasts for Chinese provincial GDP expansion this year are mostly lower than last year, indicating that the national target, due in March, is also likely to be lower than the 6%-6.5% target in 2019

2020 provincial GDP target	% of GDP	Number of provinces
Below 6%	6.3	4
Around 6%	35.8	8
6%-6.5%	26.2	9
Above 6.5%	25	8
Not announced yet	6.6	2

Source: Provincial work reports, National Bureau of Statistics, Bloomberg calculations

Bloomberg

India

Consumer confidence dropped to 59.5 in January, from 61.1 in December. India's primary consumer sentiment index was weighed down by three of its components this month, with the largest drop in the investment subcomponent (-3 points) while the jobs index actually increased points. The Sensex equities index dropped 0.5% today, outperforming peers in the region.

Primary consumer sentiment index
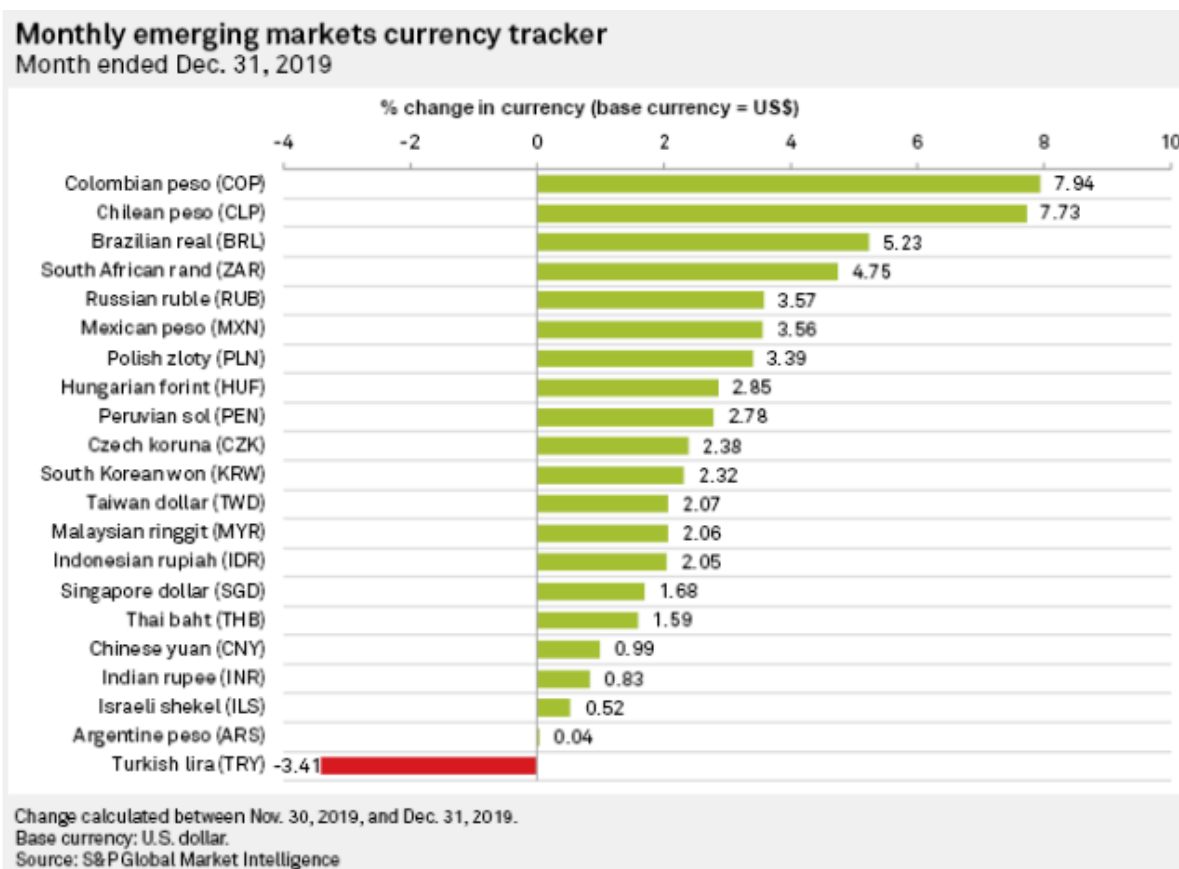
Source | Thomson Reuters-Ipsos

Primary consumer sentiment index

Consumer confidence

	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
Primary consumer sentiment index	**61.7**	**59.3**	**59.3**	**61.1**	**59.5**
Current index	58.1	55.3	56.8	60.6	57.8
Expectations index	69.0	67.0	66.3	66.6	65.2
Investment index	61.7	59.5	61.0	64.7	61.7
Job index	59.5	56.5	54.1	53.8	54.6

Source: Thomson Reuters-Ipsos

Latin American currencies

Major Latin American currencies outperformed most EM competitors in terms of appreciation against USD in December 2019. S&P analysts connected this strong performance with a mix of positive policy impulses and a recovery from prior months' crisis mode in some of the region's countries. Chile's fixing of a date for the constitutional referendum and Banco Central do Brazil's monetary policy action were mentioned as prominent drivers. On this note, last Friday's new data on the Brazilian capital utilization rate, up to 78.2%, from prior 77.9% and vs. expected 78%, and the previous' days moderate monthly inflation figures for the city of Sao Paulo, 0.41% vs prior 0.78% and expected 0.66%, may have added to the country's strong equity performance during the last Friday. Monday's reports about an estimated fiscal cost of USD 1.8bn for the Chilean pension reform on the other hand did not project strength to the Chilean stock market.

Monthly emerging markets currency tracker
Month ended Dec. 31, 2019

% change in currency (base currency = US$)

Currency	% change
Colombian peso (COP)	7.94
Chilean peso (CLP)	7.73
Brazilian real (BRL)	5.23
South African rand (ZAR)	4.75
Russian ruble (RUB)	3.57
Mexican peso (MXN)	3.56
Polish zloty (PLN)	3.39
Hungarian forint (HUF)	2.85
Peruvian sol (PEN)	2.78
Czech koruna (CZK)	2.38
South Korean won (KRW)	2.32
Taiwan dollar (TWD)	2.07
Malaysian ringgit (MYR)	2.06
Indonesian rupiah (IDR)	2.05
Singapore dollar (SGD)	1.68
Thai baht (THB)	1.59
Chinese yuan (CNY)	0.99
Indian rupee (INR)	0.83
Israeli shekel (ILS)	0.52
Argentine peso (ARS)	0.04
Turkish lira (TRY)	-3.41

Change calculated between Nov. 30, 2019, and Dec. 31, 2019.
Base currency: U.S. dollar.
Source: S&P Global Market Intelligence

Brazil

China's promise of increasing its soybean imports from US may hurt Brazil's trade balance. The FT reported last Friday that up to 4% of Brazil's annual total export volume may be threatened by a reduced Chinese demand for soy beans from the country. As, however, the country hopes to diversify its soy bean exports to countries no longer supplied by the US, market impacts remained limited to a 3.2% loss in the stock value of one the most prominent shipping companies for soybean exports from Brazil since the fading of investors' risk-on mood in early January.

Hungary

Hungarian lender OTP is planning to expand its market share in Romania to 5%. According to local press, OTP is considering various acquisition options, including that of Garanti BBVA. OTP is reportedly also interested in expanding operations in Slovenia, where it targets a market share of about 25% to 30%. OTP is expected to deliver a profit above €1 bn for 2019, surpassing its previous record in 2018. OTP's shares traded 1.3% lower this morning in Budapest.
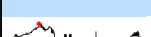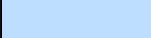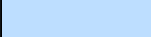
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Global Financial Indicators

Last updated: 1/21/20 8:35 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3330	0.0	2	3	25	3
Europe		3776	-0.6	0	0	21	1
Japan		23865	-0.9	-1	0	15	1
China		3052	-1.4	-2	2	17	0
Asia Ex Japan		76	0.5	2	4	14	4
Emerging Markets		46	-1.9	1	4	12	3
Interest Rates			basis points				
US 10y Yield		1.78	0.0	-3	-13	-100	-13
Germany 10y Yield		-0.22	-0.5	-5	3	-48	-4
Japan 10y Yield		0.01	-0.5	-1	-1	0	2
UK 10y Yield		0.66	0.5	-7	-13	-67	-17
Credit Spreads			basis points				
US Investment Grade		99	0.2	-3	-2	-33	2
US High Yield		391	2.8	0	-5	-39	-2
Europe IG		44	0.5	0	-1	-32	-1
Europe HY		211	2.6	1	2	-107	4
EMBIG Sovereign Spread		296	3.0	-2	2	-79	3
Exchange Rates			%				
USD/Majors		97.40	-0.2	0	0	1	1
EUR/USD		1.11	0.2	0	0	-2	-1
USD/JPY		110.0	0.1	0	-1	0	-1
EM/USD		60.9	0.0	0	0	-4	-1
Commodities			%				
Brent Crude Oil ($/barrel)		64	-1.5	0	-3	2	-3
Industrials Metals (index)		116	-0.2	0	0	2	1
Agriculture (index)		41	-0.3	-1	0	-5	-1
Implied Volatility			%				
VIX Index (%, change in pp)		12.9	0.8	0.6	0.4	-4.9	-0.8
10y Treasury Volatility Index		3.7	0.2	0.0	-0.2	-0.1	-0.4
Global FX Volatility		5.2	0.0	-0.2	-0.4	-2.9	-0.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		161	-2.1	4	-10	-229	-4
Italy		160	2.6	3	-6	-91	0
Portugal		71	0.6	12	5	-78	9
Spain		67	0.6	2	-3	-44	2

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

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Emerging Market Financial Indicators

Last updated: 1/21/2020 8:37 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		6.90	-0.5	-0.3	2	-2	1		3.1	-2.0	-2	-12	4	-5
Indonesia		13669	-0.2	0.1	2	4	1		6.9	-3.8	-6	-32	-135	-20
India		71	-0.1	-0.5	0	0	0		6.9	0.6	0	0	-68	2
Philippines		51	-0.1	-0.8	0	4	-1		4.3	0.0	-3	1	-160	-3
Thailand		30	-0.1	-0.3	-1	5	-1		1.6	-1.7	6	-8	-107	-2
Malaysia		4.07	-0.3	0.0	2	1	0		3.3	0.0	0	-11	-74	-6
Argentina		60	0.0	0.1	0	-37	0		53.8	1.9	318	-1366	3264	-876
Brazil		4.19	-0.1	-1.4	-3	-10	-4		6.2	0.1	-6	-22	-188	-9
Chile		770	-0.1	0.2	-2	-13	-2		3.3	0.0	-18	-1	-122	0
Colombia		3343	-0.3	-1.7	-1	-7	-2		5.8	4.7	-3	-17	-79	-19
Mexico		18.72	-0.3	0.3	1	2	1		6.9	0.2	-2	-11	-179	-3
Peru		3.3	0.1	0.5	0	0	0		4.4	-0.2	-3	-6	-129	-10
Uruguay		37	-0.1	-0.4	-1	-13	0		10.7	0.0	-10	-21	42	-18
Hungary		302	-0.1	-1.0	-1	-7	-2		1.3	0.8	8	18	-84	12
Poland		3.82	0.2	-0.7	1	-1	-1		2.1	0.8	0	21	-21	19
Romania		4.3	0.2	-0.1	0	-4	-1		3.9	-1.0	0	-14	-51	-10
Russia		61.8	-0.5	-0.7	1	7	0		6.0	-0.4	-1	-25	-210	-16
South Africa		14.5	0.3	-0.5	-2	-4	-3		9.5	-3.8	-10	-4	-12	-4
Turkey		5.93	-0.2	-0.8	0	-10	0		10.5	7.1	-29	-149	-608	-118
US (DXY; 5y UST)		97	-0.2	0.0	0	1	1		1.58	-3.5	-4	-15	-104	-11

	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	1 Day	7 Days	30 Days	12 M	YTD
									basis points					
China		3052	-1.4	-2	2	17	0		174	1	0	-2	-9	-2
Indonesia		6238	-0.1	-1	-1	-3	-1		163	1	-1	4	-40	7
India		41324	#VALUE!	-1	-1	13	0		126	0	-1	1	-60	1
Philippines		7467	-1.1	-4	-4	-7	-4		72	1	-3	3	-25	6
Malaysia		1587	-0.1	0	-1	-6	0		104	1	-1	-5	-42	-8
Argentina		43054	1.7	2	11	22	3		1854	21	-3	-55	1181	85
Brazil		118334	0.3	1	3	23	2		212	3	-4	0	-31	-3
Chile		4799	-1.3	-3	1	-12	3		141	2	-1	2	-3	8
Colombia		1656	0.0	0	1	18	0		170	3	0	5	-24	7
Mexico		45903	0.2	2	3	4	5		297	2	-5	0	-15	5
Peru		20735	0.0	1	2	6	1		111	2	-2	3	-37	4
Hungary		44551	0.2	-1	-2	9	-3		93	3	1	7	-41	7
Poland		58905	-0.4	0	3	-2	2		22	2	1	6	-40	4
Romania		10117	0.2	1	2	41	1		176	-2	3	-5	-37	3
Russia		3197	-0.7	2	6	30	5		140	2	-2	6	-77	9
South Africa		57912	#VALUE!	0	1	7	1		334	5	3	9	9	14
Turkey		123108	0.4	1	11	26	8		375	5	-11	-31	-50	-26
Ukraine		505	0.0	0	-1	-9	-1		361	5	-13	-67	-324	-59
EM total		46	-1.9	1	4	12	3		296	3	-2	2	-79	3

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

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