




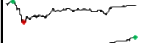





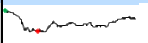


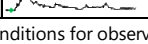
- US firms issue shares at record pace in 2021 ([link](#))
- Record year for SPACs in 2020 looks set to continue in 2021 ([link](#))
- Italy's sovereign yields decline as investors hope for a tactical power reshuffle ([link](#))
- European equity funds enjoy a strong start of the year ([link](#))
- EM hard-currency bond issuance continues to be robust ([link](#))
- China overtakes the US as largest FDI recipient in 2020 ([link](#))

[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

## Mixed markets amidst lingering uncertainty

**Markets seem to lack clear direction today as investors weigh the potential for additional fiscal stimulus against the impact of continued lockdowns.** There are concerns that the introduction of a \$1.9 tn stimulus package by the new US administration may be running into some resistance in Congress, with some members questioning its size. While US equities are pointing to a positive start, led by technology stocks, European and EM equities are mixed. Safe havens are generally trading on the stronger side, with 10-Year Treasury and Bund yields down by about 3 bps and gold up close to 0.5%. Oil prices are also experiencing some intraday volatility as investors ponder the impact of potential supply cuts in Iraq and Libya against rising global demand. In the week ahead, the US earnings season will continue to be in focus, with heavyweights like Apple, Microsoft, Boeing, Facebook, and Caterpillar all reporting. The US FOMC meeting is on Wednesday, though no significant policy changes are expected. US Q4 GDP will be released on Thursday, with consensus views for 4.3% growth (q/q SAAR). In Europe, we will receive inflation and GDP data in several major economies.

Key Global Financial Indicators

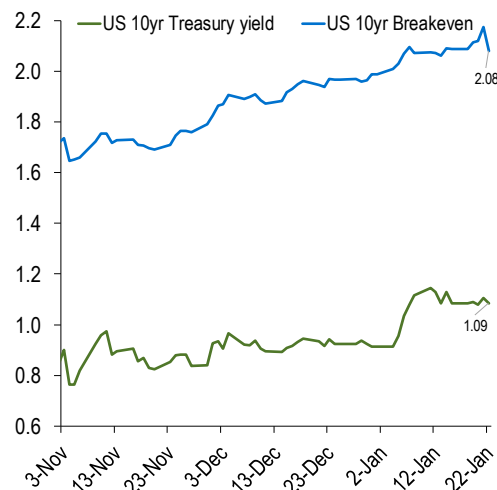
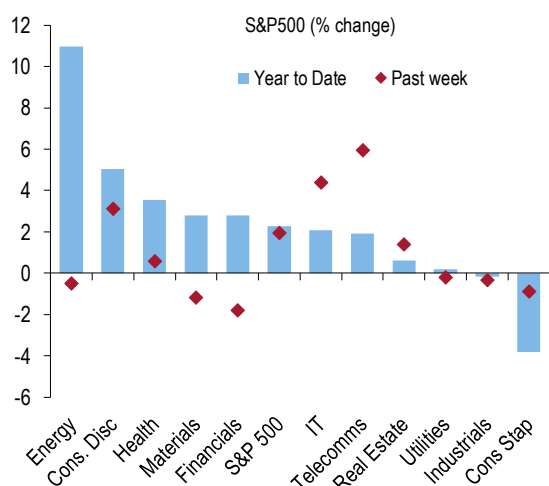
Last updated: 1/25/21 7:53 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		3841	-0.3	1	4	17	2
Eurostoxx 50		3569	-0.9	-1	1	-6	0
Nikkei 225		28822	0.7	2	8	21	5
MSCI EM		56	-0.9	1	11	25	8
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.06	-2.2	-2	14	-62	15
Germany 10y Yield		-0.54	-3.0	-2	1	-21	3
EMBIG Sovereign Spread		355	1	-2	-1	61	5
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		57.3	0.0	0	-1	-6	-1
Dollar index, (+) = \$ appreciation		90.3	0.1	-1	0	-8	0
Brent Crude Oil (\$/barrel)		55.5	0.1	1	8	-9	7
VIX Index (% change in pp)		23.3	1.4	-1	2	9	1

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

## United States

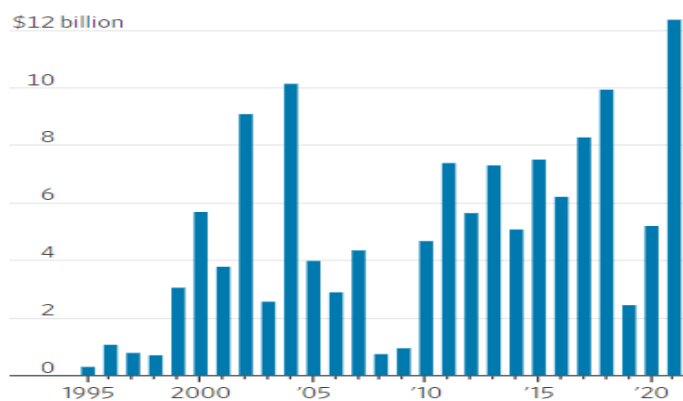
[back to top](#)

**Markets edged lower on Friday to close a solid week up nearly 2%,** with tech and telecomm outperforming, as investors digested mixed news on global virus developments and uncertainty over the Biden spending plan in the Senate. Despite gloomy jobless claims data on Thursday (900k initial claims), other economic data on Friday proved to be more solid. US existing home sales rose 0.7% to 6.8 million (SAAR), the highest since 2006 and up 22% y/y. US composite Markit PMI for January came in at 58 compared to 55.3 the previous month, with manufacturing at 59.1—the highest reading since 2007. **Breakeven rates cooled off on Friday,** with the 10-year down close to 10 bps to 2.08%, while **the 10-year Treasury yield was little changed last week hovering around 1.09%.**



**US firms have issued shares at a record pace this year, with 57 offerings worth \$12.4 bn,** according to Dealogic and the WSJ, as public companies take advantage of high valuations. Healthcare and pharmaceutical companies have been at the forefront as they look to capitalize on market enthusiasm for rapid vaccine development and related projects. Zoom also raised nearly \$2 bn this year through an offering rather than issue debt to build out its operations. Another 18 firms have reportedly announced plans for secondary offerings going forward. In addition to secondary offerings, in 2020, companies raised a record sum of nearly \$170 bn in IPOs.

**Money raised in follow-on offerings by U.S.-listed companies each year through Jan. 20**

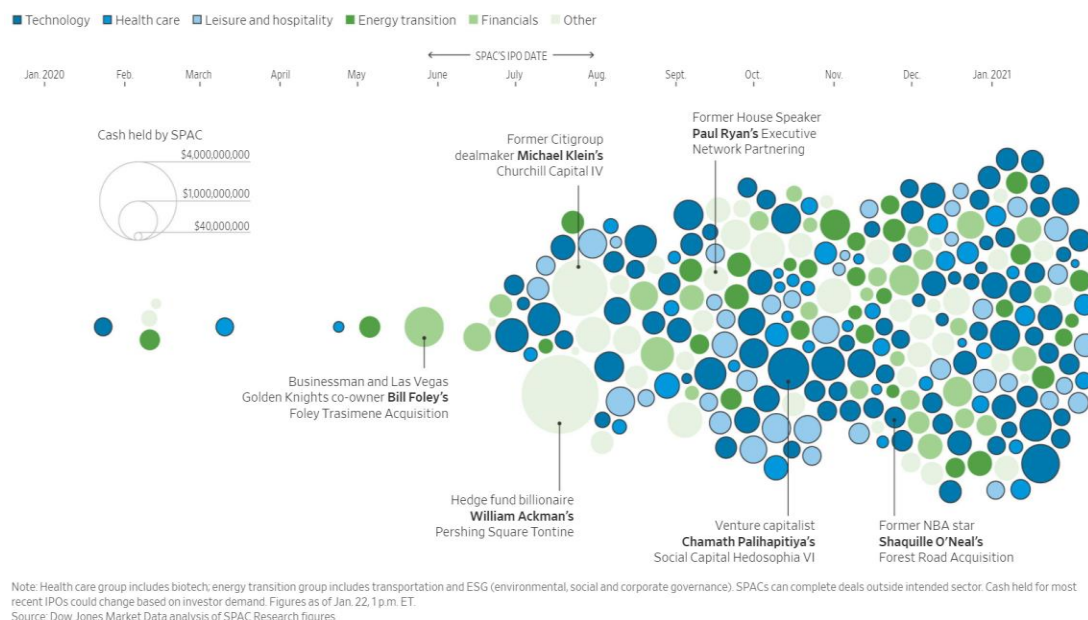


Source: Dealogic

**Record year for SPACs in 2020 set to continue in 2021.** After special purpose acquisition companies (SPACs) pulled in a record \$82 bn in 2020, 67 SPACs have already generated nearly \$20 bn this year,

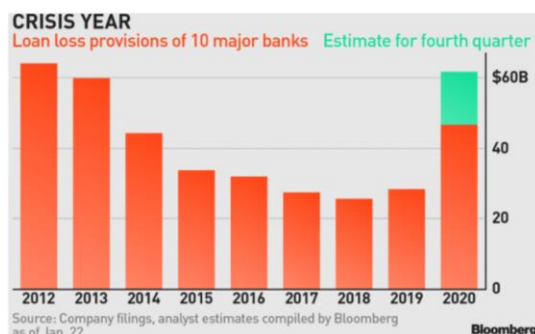
according to Dealogic and the WSJ. In fact, about 70% of the funds raised in IPOs in January are reportedly driven by these 'blank check' companies, compared to around 45% in 2020. By some estimates, there are nearly 300 such entities now looking for acquisitions, with around \$90 bn in cash, ramping up valuations in trendy sectors such as technology, clean energy, and health care. Generally, once formed they are required to acquire a target within about 2 years or return the money raised to investors. A diverse collection of investors have spearheaded new SPACs over the last year, including hedge fund managers like Bill Ackman, politicians such as former Speaker of the House Paul Ryan, and prominent actors and sports figures like Shaquille O'Neal.

SPACs targeting mergers, by intended sector



## Europe [back to top](#)

**European equities were drifting lower with banks (-1%) and energy sector (-0.5%) slightly underperforming.** According to Bloomberg reports, European biggest banks set aside as much as \$15bn towards bad loans provision in Q4 bringing the total FY2020 to \$60 bn. This contrasts sharply with a number of top U.S. banks that have experienced a boost in Q4 profitability from the release of some of their earlier loan-loss reserves.

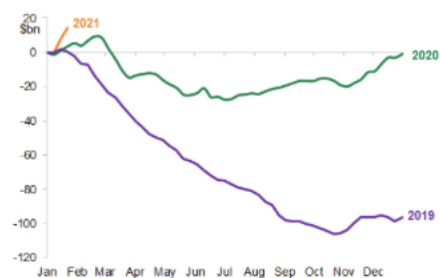


**European equity funds enjoyed a strong start of the year**, mainly from inflows from global mandate investor allocations. That said, the asset class is still significantly behind its global peers when compared on a multi-year horizon. Multiple sell-side analysts maintain a positive call for European equities on the

back of strong economic recovery momentum amid a low interest rate environment, with strength of the euro offering additional return potential.

#### Exhibit 1 : Flows from global investors into European equity funds had a very strong start to the year

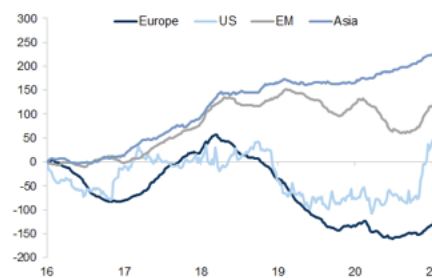
Calendarised flows from global investors into European equity funds - USD bn



Source: EPFR, Haver Analytics, Goldman Sachs Global Investment Research

#### Exhibit 2 : Flows to European equities have recently picked up but less so than in other regions

Cumulative flows in USD bn

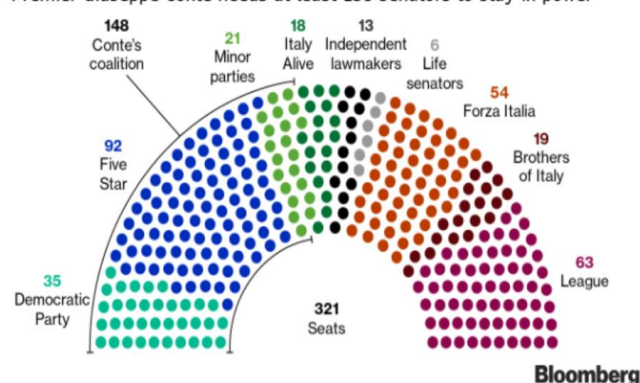


Source: EPFR, Haver Analytics, Goldman Sachs Global Investment Research

**European bond yields were lower** with German bunds declining by 2 bps, having undone all post-ECB gains. Southern European spreads were little changed except for **Italy, where 10-year bond spread over Germany tightened by 4 bps**. Markets will be watching closely the vote on the justice minister annual report taking place in Italian Senate either on Wednesday or Thursday as the Premier Conte is still short of a majority. According to media reports, the Prime Minister may choose to resign as early as today ahead of the vote in a strategic move, while aiming to get a mandate to form a new, third government.

#### Missing Majority

Premier Giuseppe Conte needs at least 158 senators to stay in power



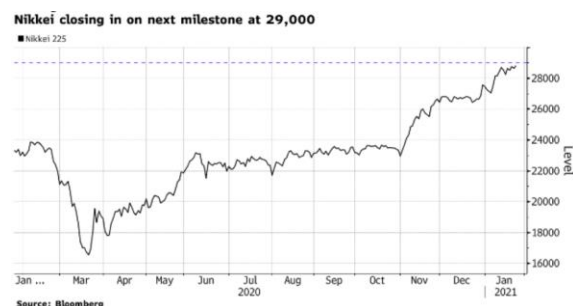
## Other Mature Markets

[back to top](#)

### Japan

**Japan is set to examine the impact of the state of emergency next week**—having declared the status for Tokyo and adjacent areas on January 7—and expanding it to cover seven more prefectures on January 13. The state of emergency is expected to run until February 7. Daily infections in Tokyo fell below 1,000 for the first time in more than two weeks on Sunday. **Separately, the Bank of Japan (BOJ) released full policy meeting minutes from 2010H2**. The minutes showed the BOJ stressing the need to undertake unconventional steps including the purchase of exchange-traded funds (ETFs) to help underpin the

economy in 2010 but also cautioned on the risks from potential losses. Equities rose +0.3%, with strength seen in the pharmaceuticals sector. The yen was little changed while 10-year JGB yield fell -0.4bps.



## Emerging Markets [back to top](#)

**In Asia**, equities rose +1.2%, driven by North Asian outperformance. Hong Kong SAR (+2.4%) and Korea (+2.2%) outperformed, with heavy weights Tencent and Samsung Electronics bolstering gains. Malaysia and Indonesia underperformed, with the latter's capital city Jakarta extending virus restrictions by two weeks to February 8.

**In EMEA**, South African equities (+2%) rose sharply boosted by gains of technology company Naspers. Czech equities (+2%) benefited from news on a potential merger within the banking system. Stocks in Budapest (+0.5%) rose even though PM Orban warned that Hungary will probably need to extend virus curbs. The National Bank of Hungary is expected to leave its policy rate unchanged at 0.60% (Tuesday). And in an otherwise quiet week for data releases, South Africa will report M3, private sector credit and trade balance data, while Turkey will publish trade data (both on Friday).

**In Latin America**, markets generally weakened on Friday, with both local currency and dollar-denominated equity indices finished the week lower (-2.3% and -4.6%, respectively). The major factors behind the declines included volatile commodity prices (Chile, Colombia), a slowing economic momentum (Brazil), and concerns about inflation (Mexico). The Brazilian real led the declines in regional currencies on Friday—weakening 2.1% against the USD—as investor grew increasingly concerned about slowing fiscal reforms and from the central bank's removal of forward-guidance earlier in the week.

Key Emerging Market Financial Indicators

Last updated: 1/25/21 7:56 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		55.83	1.6	1	11	25	8
MSCI Frontier Equities		29.53	-0.3	-1	5	-5	4
EMBIG Sovereign Spread (in bps)		355	1	-2	-1	61	5
EM FX vs. USD		57.27	0.0	0	-1	-6	-1
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.48	0.1	0	1	7	1
Indonesian Rupiah		14023	0.1	0	1	-3	0
Indian Rupee		72.95	0.0	0	1	-2	0
Argentina Peso		86.57	-0.2	-1	-4	-31	-3
Brazil Real		5.46	0.2	-3	-5	-23	-5
Mexican Peso		19.99	-0.1	-1	-1	-5	0
Russian Ruble		75.46	-0.2	-2	-2	-17	-1
South African Rand		15.22	-0.5	0	-4	-4	-3
Turkish Lira		7.39	0.3	1	2	-20	1
EM FX volatility		10.44	1.1	0.1	0.0	4.3	-0.3

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



## EM bond issuance

**EM hard-currency bond issuance continued to be robust last week, underpinned by easing global financial conditions, with the average weekly pace in January about twice as fast as that of Q4 (table). Total issuance amounted to \$30 bn last week, led by the sovereign sector in CEEMEA and Latin America; as Bahrain, Chile, Panama, Paraguay, Slovenia, and Turkey borrowed \$13.5 bn. Coupons ranged from 83 and 119 bps in Chile and Slovenia to 589 bps in Turkey, respectively, for similar, 8-10 year bonds. In another sign of favorable market conditions in EMs, Bahrain (B+) and Paraguay (BB) issued 40-year bonds at 540 and 625 bps, respectively. Corporate and financial issuance was also strong and more diversified across the major regions, compared to that in Q4, which was more dominated by China. The only exception was Latin America, where the private sector issuance remained relatively subdued.**

EM Bond Issuance, \$ bn

October - January

	Total	Sovereign	Corporate	Financial	Supra	Muni/Local	Gov't
ASIA (non-Japan)	112.5	17.7	62.6	25.8	0.0	6.4	
CHINA	74.3	10.7	42.0	15.2	0.0	6.4	
Latam	49.8	30.6	16.2	2.9	0.0	0.0	
CEEMEA	85.1	40.5	29.0	13.5	1.5	0.6	
EM total	247.4	88.9	107.8	42.2	1.5	7.0	

Week ending 1/22

	Total	Sovereign	Corporate	Financial	Supra	Muni/Local	Gov't
ASIA (non-Japan)	9.1	0.0	6.1	2.6	0.0	0.4	
CHINA	5.2	0.0	3.4	1.5	0.0	0.4	
Latam	9.2	7.7	0.9	0.6	0.0	0.0	
CEEMEA	12.0	5.8	3.7	2.5	0.0	0.0	
EM total	30.4	13.5	10.7	5.8	0.0	0.4	

October - January

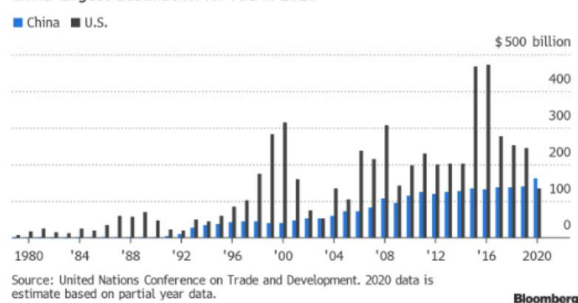
	Total	Sovereign	Corporate	Financial	Supra	Muni/Local	Gov't
October	72.0	14.4	36.8	12.7	0.6	2.3	
November	61.3	28.7	22.0	8.4	0.0	0.6	
December	26.6	11.5	9.8	1.6	0.0	2.3	
January	100.2	34.3	39.2	19.6	0.9	1.8	

Source: Bloomberg, BondRadar, and IMF staff calculations.

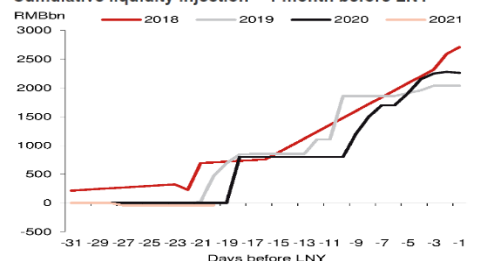
## China

**China overtook the US as the largest recipient of foreign direct investment (FDI) in 2020.** China's FDI flows rose +4% to \$163 bn, according to the United Nations Conference on Trade and Development (UNCTAD). The US in contrast recorded a decline of -49% to \$134 bn. China's FDI was driven by an increase of +11% in high-tech industries, while cross-border mergers & acquisitions grew +54%, primarily in information communications technology and pharmaceutical industries. Separately, **China Securities Journal wrote that the central bank may use open market operations as the main tool to stabilize liquidity before the Lunar New Year (LNY) holidays in February.** Analysts expect the People's Bank of China (PBOC) to inject more liquidity ahead of the holidays to meet seasonal demand for cash, as in previous years. Equities (Shanghai +0.5%; Shenzhen +0.3%) rose today, while the onshore RMB was little changed.

China largest destination for FDI in 2020



Cumulative liquidity injection – 1 month before LNY



## Russia

**Investors are closely monitoring the impact on Russian assets of any potential confrontation between the Biden Administration and the Russian government regarding the recent protests, including through the possible imposition of new U.S. sanctions.** The ruble is little changed today but has fallen 1.6% so far this year, compared to a 7.7% YTD gain in oil prices. Equities (+1%) opened the week higher after spot oil prices (+1%) rose on news that Iraq could cut output in January and February

and Libya halted some crude exports. **Morgan Stanley points out that foreign investors have sharply increased their holdings of local bonds, with positioning relative to benchmark near multi-year highs.** 10-yr yields on OFZ local currency bonds are currently around 6.25%; 42 bps higher than their level in early Dec.

**Russia: Foreign holdings of local bonds relative to benchmark (GBI-EM)**



Source: Company websites, Morgan Stanley

## List of GMM Contributors

*Global Markets Analysis Division, MCM Department*

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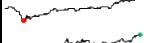
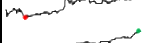


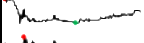















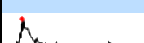






<b>Nassira Abbas</b> <i>Deputy Division Chief</i>	<b>Dimitris Drakopoulos</b> <i>Financial Sector Expert</i>	<b>Dmitri Petrov</b> <i>Financial Sector Expert</i>
<b>Antonio Garcia-Pascual</b> <i>Deputy Division Chief</i>	<b>Deepali Gautam</b> <i>Research Officer</i>	<b>Thomas Piontek</b> <i>Financial Sector Expert</i>
<b>Evan Papageorgiou</b> <i>Deputy Division Chief</i>	<b>Rohit Goel</b> <i>Financial Sector Expert</i>	<b>Patrick Schneider</b> <i>Research Officer</i>
<b>Jose Abad</b> <i>Financial Sector Expert</i>	<b>Sanjay Hazarika</b> <i>Senior Financial Sector Expert</i>	<b>Can Sever</b> <i>Economist</i>
<b>Sergei Antoshin</b> <i>Senior Economist</i>	<b>Frank Hespeler</b> <i>Senior Financial Sector Expert</i>	<b>Juan Solé</b> <i>Senior Economist</i>
<b>John Caparusso</b> <i>Senior Financial Sector Expert</i>	<b>Henry Hoyle</b> <i>Financial Sector Expert</i>	<b>Jeffrey Williams</b> <i>Senior Financial Sector Expert</i>
<b>Yingyuan Chen</b> <i>Financial Sector Expert</i>	<b>Mohamed Jaber</b> <i>Senior Financial Sector Expert</i>	<b>Dmitry Yakovlev</b> <i>Senior Research Officer</i>
<b>Han Teng Chua</b> <i>Economic Analyst</i>	<b>Phakawa Jeasakul</b> <i>Senior Economist</i>	<b>Akihiko Yokoyama</b> <i>Senior Financial Sector Expert</i>
<b>Fabio Cortés</b> <i>Senior Economist</i>	<b>Sonia Meskin</b> <i>Financial Sector Expert</i>	<b>Xingmi Zheng</b> <i>Research Assistant</i>
<b>Reinout De Bock</b> <i>Economist</i>	<b>Natalia Novikova</b> <i>IMF Resident Representative in Singapore</i>	

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## Global Financial Indicators

Last updated: 1/25/21 7:55 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		3841	-0.3	1	4	17	2
Europe		3567	-1.0	-1	1	-6	0
Japan		28822	0.7	2	8	21	5
China		3624	0.5	1	7	22	4
Asia Ex Japan		98	-0.9	2	13	34	10
Emerging Markets		56	-0.9	1	11	25	8
<b>Interest Rates</b>			basis points				
US 10y Yield		1.07	-2.0	-2	14	-62	15
Germany 10y Yield		-0.54	-3.0	-2	1	-21	3
Japan 10y Yield		0.05	0.1	-1	3	7	3
UK 10y Yield		0.28	-3.3	-1	2	-29	8
<b>Credit Spreads</b>			basis points				
US Investment Grade		95	0.7	0	-6	-4	0
US High Yield		370	4.7	-4	-31	-27	-10
Europe IG		50	1.5	-1	2	4	2
Europe HY		264	10.0	5	20	35	21
EMBIG Sovereign Spread		355	1.5	-2	-1	61	5
<b>Exchange Rates</b>			%				
USD/Majors		90.30	0.1	-1	0	-8	0
EUR/USD		1.22	-0.1	1	0	10	0
USD/JPY		103.8	0.0	0	0	5	-1
EM/USD		57.3	0.0	0	-1	-6	-1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		56	0.2	1	8	-9	7
Industrials Metals (index)		136	0.1	1	1	23	3
Agriculture (index)		48	-0.3	-5	4	20	1
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		23.4	1.5	-0.9	1.9	8.9	0.7
US 10y Swaption Volatility		54.0	-1.1	-4.2	-1.6	-1.9	-6.1
Global FX Volatility		7.7	0.1	-0.1	-0.2	2.5	-0.4
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		123	1.1	1	3	-42	3
Italy		123	-2.9	8	10	-33	12
Portugal		58	-0.7	3	-3	-14	-2
Spain		63	-0.8	2	1	-6	1

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

[back to top](#)

## Emerging Market Financial Indicators

Last updated: 1/25/2021 7:57 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		6.48	0.1	0.2	1	7	1		3.3	-1.6	-1	-10	20	-2
Indonesia		14023	0.1	0.3	1	-3	0		6.3	1.1	6	20	-51	26
India		73	0.0	0.5	1	-2	0		6.0	0.3	2	7	-83	10
Philippines		48	0.0	0.0	0	6	0		3.6	-3.6	0	-1	-64	-3
Thailand		30	0.0	0.4	0	2	0		1.4	-0.6	-3	6	-19	6
Malaysia		4.04	0.0	0.2	0	0	-1		2.6	1.6	5	5	-57	3
Argentina		87	-0.2	-1.0	-4	-31	-3		51.6	-19.1	-34	-520	-105	-450
Brazil		5.46	0.2	-3.0	-5	-23	-5		6.6	14.4	29	95	57	106
Chile		728	0.0	0.8	-2	9	-2		2.8	-1.5	-1	2	-52	3
Colombia		3527	-1.3	-1.7	-2	-6	-3		5.1	2.1	-1	-1	-60	1
Mexico		19.99	-0.1	-1.5	-1	-5	0		5.6	1.8	0	9	-128	4
Peru		3.6	-0.3	-0.6	-1	-9	0		3.8	4.5	9	23	-57	21
Uruguay		42	0.1	0.6	0	-12	0		7.2	0.0	0	-13	-329	-3
Hungary		294	-0.1	1.4	1	4	1		1.6	-3.1	-6	7	21	5
Poland		3.74	-0.3	0.5	-1	4	0		0.6	-0.8	1	-10	-144	-5
Romania		4.0	-0.1	0.6	0	8	-1		2.4	3.0	-17	-40	-155	-39
Russia		75.5	-0.2	-1.9	-2	-17	-1		6.0	10.9	13	29	2	27
South Africa		15.2	-0.5	-0.4	-4	-4	-3		9.7	3.5	-12	5	19	1
Turkey		7.39	0.3	1.1	2	-20	1		13.4	-4.6	-17	35	311	29
US (DXY; 5y UST)		90	0.1	-0.5	0	-8	0		0.42	-1.1	-3	6	-108	6

	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	1 Day	7 Days	30 Days	12 M		
									basis points						
China		5626	1.0	2	12	41	8		201	-2	-8	-6	26	-7	
Indonesia		6259	-0.8	-2	4	0	5		176	-2	-5	-11	7	-11	
India		48348	-1.1	0	3	16	1		155	-4	-3	2	28	4	
Philippines		7072	0.4	-2	-2	-7	-1		93	-2	-5	-12	19	-12	
Malaysia		1577	-1.3	-2	-4	0	-3		106	-4	-11	-7	2	-4	
Argentina		48471	0.0	-4	-6	21	-5		1424	3	-28	68	-657	56	
Brazil		117381	-0.8	-2	0	-1	-1		273	-1	4	18	49	23	
Chile		4476	-2.1	-3	8	-4	7		141	-1	-1	-3	-8	-3	
Colombia		1419	-1.9	-2	0	-14	-1		220	-1	-2	14	44	15	
Mexico		44684	-0.3	-3	3	-1	1		376	-3	-6	-3	73	16	
Peru		21384	-0.1	0	3	5	3		130	-1	-5	-7	11	-2	
Hungary		43644	0.0	-2	6	-2	4		78	-1	-2	-18	-23	-18	
Poland		56827	-0.8	-3	2	-3	0		-13	-1	-1	-14	-41	-12	
Romania		10305	-0.3	1	6	1	5		202	2	-1	-4	19	-1	
Russia		3406	0.7	-2	5	8	4		169	-2	6	6	21	3	
South Africa		64824	1.3	2	10	13	9		386	-3	-6	1	41	6	
Turkey		1540	-0.2	-1	8	26	4		459	-1	-9	0	91	14	
Ukraine		499	0.0	0	-2	-1	0		489	-4	-14	-9	111	-2	
EM total		56	1.5	1	11	25	8		421	0	17	-10	97	128	

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

[back to top](#)