



- Past recession episodes indicate that Fed rate cut may not save stock markets ([link](#))
- European bond sales see busiest January on record ([link](#))
- Former Bank of Japan official signals changes likely after Governor Kuroda exits ([link](#))
- Australian rates jump on higher-than-expected inflation data ([link](#))
- National Bank of Hungary delivers hawkish surprise ([link](#))
- Central Bank of Nigeria opts for aggressive rate hike ([link](#))
- Thai central bank hikes and signals more tightening ahead ([link](#))

[Mature Markets](#)




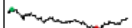

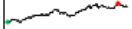





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Tech rally fades, sending markets into in the red

US equity futures are pointing to a meaningfully lower open following yesterday's weaker than expected earnings report from Microsoft. Futures on the Nasdaq are more than 1% lower this morning after having rallied more than 8% already on the year. European equities are also lower on the day thus far, with the Stoxx 600 down 0.5%, led by a drop in tech stocks (-1.1%). Later today, the Bank of Canada is expected to raise its policy rate by 25 bp to 4.50%, though the expectation is not unanimous as some analysts believe the central bank may be finished hiking for now. Markets price about a 70% likelihood of a hike. Sovereign bond yields are declining this morning, with the German and US 10 year yields down 6bp and 3bp respectively. The dollar is strengthening versus the euro for the first time in over a week.

Key Global Financial Indicators

Last updated: 1/25/23 8:02 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		4017	-0.1	1	4	-8	5	-5
Eurostoxx 50		4130	-0.5	-1	8	1	9	4
Nikkei 225		27395	0.4	2	4	1	5	4
MSCI EM		42	0.1	2	11	-13	11	-11
Yields and Spreads			bps					
US 10y Yield		3.42	-3.1	5	-33	165	-45	143
Germany 10y Yield		2.10	-5.9	7	-31	218	-48	187
EMBIG Sovereign Spread		442	5	-5	-12	51	-10	29
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		51.3	0.1	1	3	-3	3	-3
Dollar index, (+) = \$ appreciation		102.0	0.1	0	-2	6	-1	6
Brent Crude Oil (\$/barrel)		86.0	-0.1	1	3	-2	0	-11
VIX Index (% change in pp)		20.0	0.8	0	-1	-11	-2	-11

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

The S&P 500 was little changed (-0.1%) after a two-day rally amid weak economic data and a mixed set of earnings releases. At the market opening, some stocks were hit with trading halts due to technical issues that caused wild stock price swings. At least forty S&P 500 stocks were affected, but trading resumed in a short time. After the regular trading session closed, Microsoft reported EPS that beat the average analyst estimate, and shares rose in post-market trading. US treasury yields edged lower with the curve flattening. After a well-received 2-year auction, markets saw a further rally, with the 10-year yield closing down 6 bp.

Stock prices have risen more than 4% this year, likely reflecting market expectations that inflation is likely cooling, and the Fed is approaching the end of rate hikes. Recent upward growth revisions by market analysts also support the optimistic view that the US economy can manage a soft-landing. But some market participants who think the recession is inevitable see the recent optimism more cautiously. SMBC Nikko analysts argued that past episodes tell that the Fed's pivot toward

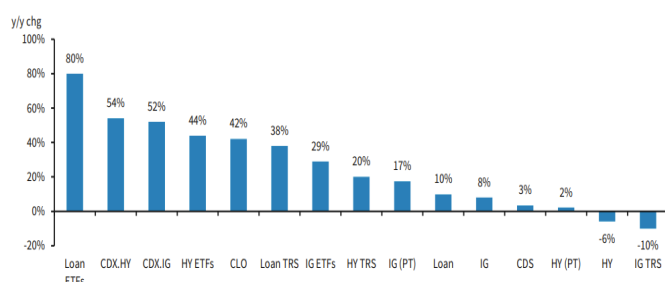
rate cuts does not support stock markets if the economy enters recession: stocks only recover after the economy is close to bottoming out in lagged response to monetary easing. As the table shows, in half of the past rate cut episodes, S&P 500 was higher three months after the first rate cut, as investors were excited about monetary easing, but when looking at six months and twelve months later, stocks generally sold-off sharply, as expectations shifted, and prices fell when the economy slumped. The 1989 episode may give some hope, but it is worth noting that stock prices fell afterward and didn't bottom out until sixteenth months later, in October 1990.

Month of First Fed Rate Cut	S&P 500 % Change Over Ensuing...		
	3-months	6-months	12-months
March 1960	2.9	-3.3	17.6
October 1973	-10.8	-16.6	-31.8
February 1981	1.0	-6.5	-13.8
June 1989	9.8	11.1	12.6
January 2001	-8.5	-11.3	-17.3
September 2007	-3.8	-13.4	-23.6

Source: S&P, FRB, Haver, SMBC Nikko

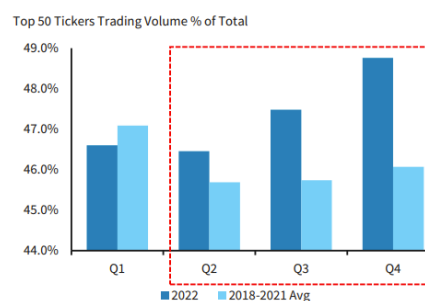
Credit markets have seen sharp rallies this year, recovering from 2022. Bloomberg reported that global IG companies have sold more than \$400 bn bonds so far, and HY issuers also came back to primary markets on the back of a better market environment. But some market participants see the recent boom as temporary and have a cautious view on volatility resurging. As for trading activity, Barclays analysts found that more liquid products experienced a larger increase in trading volume last year amid high market volatility. Their research of the US credit market explains that trades of macro credit products, such as CDX and ETFs, increased sharply, while trading in corporate cash bonds were muted in 2022, reflecting investors favoring liquid products amid high uncertainty about the macro environment. In both IG and HY cash bond markets, trading was more concentrated in securities with large outstanding, coinciding with an increase in spread volatility.

FIGURE 1. Year-over-Year Change in Trading Volumes



CDX volumes are for the on-the-run indices. IG and HY volumes are from TRACE, including 144As. HY and IG ETF volumes are based on the five largest ETFs in each market by AUM, while the loan ETF volumes are based on the three largest. TRS volumes are from DTCC.
Source: Bloomberg, DTCC, TRACE, Barclays Research

FIGURE 11. Trading Volume Concentration Has Increased since the Fed Liftoff



Note: Volume and turnover for IG Corporate index-eligible bonds.

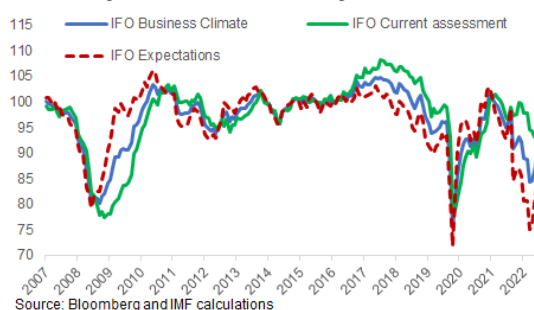
Source: MarketAxess, Bloomberg, Barclays Research

Euro Area

Sovereign yields continue to edge lower (10y bunds -3 bp) while equities traded in the red (Stoxx 600 -0.4%) and the euro weakened against the dollar (-0.2%). Divergent views on how long the ECB is to keep hiking rates by 50 bp continue, with ECB Governing Council (GC) member Simkus saying “there’s a strong case for staying on the course that’s been set for the coming meetings of 50 bp increases”. While some ECB GC members have spoken in favor of 50 bp hikes at each of the two upcoming ECB meetings, other GC members seemed to be in favour of a more gradual approach after the meeting next week. ECB executive board member Panetta said that any conditional guidance beyond the upcoming ECB meeting next week would not be in line with the ECB’s data-driven approach. Panetta highlighted that the March meeting would feature new forecasts. **A 50 bp ECB hike next week remains fully priced in by markets while another 50 bp hike in March is priced with around 80% implied probability.**

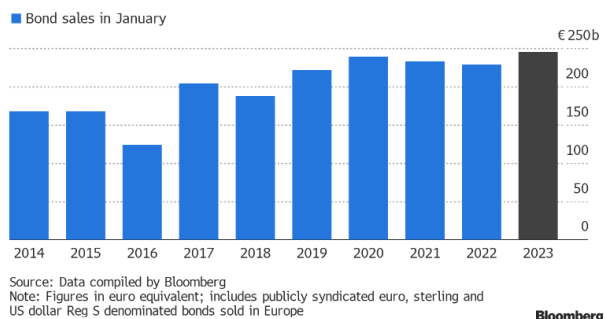
On the data front, German IFO index improved for the fourth consecutive month in January and is now back to levels last seen around mid-2022. Data came in below expectations, and showed a slight deterioration in the current assessment component while expectations continued to increase. The German government is set to publish their 2023 economic growth forecasts later today—with media reports outlining expectations for growth forecast at +0.2% as opposed to -0.4% forecasted in October.

Germany: IFO Business surveys



European bond sales have seen the busiest January on record this year, with issuance close to €245 bn so far this month, according to Bloomberg. The UK and European Union has seen significant issuance over the past week, together with financial institutions, as the start of the year global credit rally drove funding costs lower. The previous record for January was reached in 2020 at €239bn.

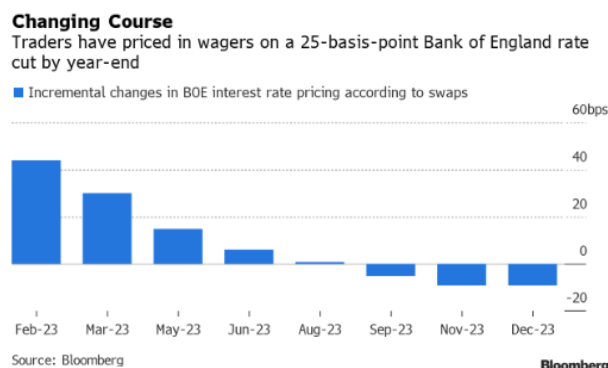
Record European Bond Sales in January 2023



United Kingdom

The pound weakened (-0.2% against the dollar) and 10y gilt yields traded lower (-5 bp) with data showing that UK produced input prices increased by the slowest rate since February 2022. The Office for National Statistics published the revised series of PPI this morning, showing PPI to 16.5%/y in

December. **While markets are still pricing in roughly 45 bp of tightening for the BoE meeting next week, traders have now priced in a 25 bp cut by end-2023** on the back of recent data releases showing a loss in economic growth momentum and easing price pressures.



Australia

Swap yields jumped 18 bp to 3.83% in the 2-yr and the Australian dollar (+0.7%) gained on an upside surprise in inflation data. Headline inflation rose to 7.8% y/y in December, from 7.3% y/y (7.6% y/y expected). Trimmed mean inflation rose to 6.9% y/y (6.5% y/y expected) and the median weighted index inflation to 5.8% y/y from 5.0%. Holiday prices played a key role, rising a stunning 27% m/m. The Australian dollar has been the best performing currency so far this year in the G-10 universe.

Japan

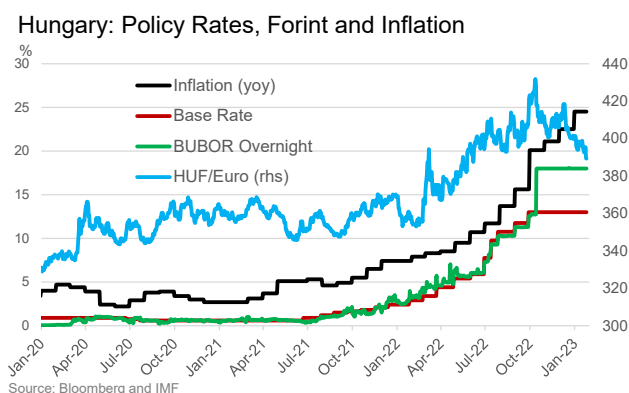
Swap yields are 2–3 bp higher today after former BoJ chief economist Maeda said that further changes to BoJ policy are unlikely before Kuroda retires on April 8 but added that is “more likely than not that the BOJ will take steps within the first six months of a new governorship.” Mr. Maeda said that mild inflation is starting to take root and reduces the need for extraordinary policies. Mr. Maeda pointed to significant side effects from the Yield Curve Control policy including large volatility in currency markets and a deterioration of market functioning. Equities (0.3%) and the yen (+0.3%) are firmer today.

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Asian stocks (+0.3%) gained as markets remain closed in China and Hong Kong. EMEA markets are mixed today. Equity markets are mostly down, except for the Czech Republic (+0.8%). The Polish equity market is registering the biggest losses (-1.4%) after a local news report said the government might extend the mortgage payment holidays that hit banks’ earnings last year. Currencies are broadly flat vs. their reference currencies. Yields on local bonds in central and eastern Europe are broadly unchanged, except for Hungary (-20 bp to 7.99%), after the Central Bank surprised markets with more hawkish than expected rhetoric yesterday. **LatAm markets were steady Tuesday.** Markets in Brazil were up with equities gaining 1.2% and the currency also appreciating 1% against the USD. In Mexico, early Jan inflation has accelerated and came in at 7.94% y/y (7.86% y/y in second half of Dec 2022). However, analysts do not believe this will affect the central bank’s monetary policy path, yet. Mexico’s equity markets (+1%) closed in the green, while the currency was little changed. In Peru, the congress has extended the deadline to announce a date for general elections to February 10 from January 31. As protests continue in the country, the Peruvian sol depreciated another 0.3%. Other regional currencies have rallied this week on the back of optimism about commodity demand from the re-opening of China. The Chilean peso has outperformed, gaining 3% in the last three sessions, and closing at 801.7/USD, its highest level since April 2022.

Hungary

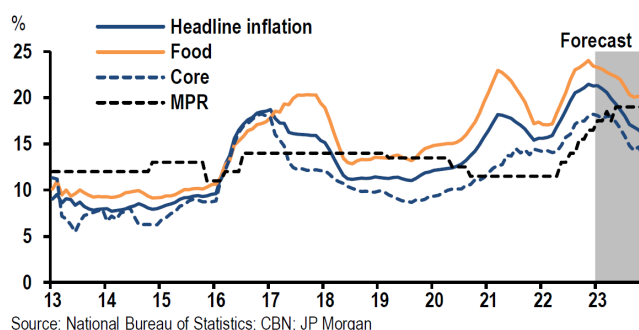
The Hungarian forint strengthened nearly 2% vs the euro (to 389.1/euro) yesterday, its strongest level in 7 months, after the National Bank of Hungary (NBH) tightened liquidity further and sounded much more hawkish than the market had expected. Bond yields increased 16 bp (to 7.56%) intraday yesterday but reversed the move today. NBH kept the policy rate unchanged at 13%, but unexpectedly doubled lenders' required reserves ratio to 10% from April 1 to mop up liquidity. Investors had also anticipated that NBH might give an indication as to when it would start easing policy, in particular by allowing the overnight deposit rate (currently 18%), which was introduced in October as an emergency to stabilize the forint, to start converging towards the base rate (13%). Instead, during the press conference, deputy governor Virag said that NBH will maintain "tight" monetary policy for a "prolonged period," including by keeping their 18% key interest rate unchanged until a trend-like improvement in risk assessment. Still, some analysts at JP Morgan think they will cut the overnight depo rate by 100 bp in March, when the new inflation report will be released. They also point out that if the NBH manages to roll over the 2-month deposit facility, which matures today, at lower rate than previously (17.95%), it could be a sign that the NBH can start easing without worrying about market backlash. Barclays analysts expect that NBH will stay put until at least Q2 2023.



Nigeria

The Central bank of Nigeria (CBN) delivered a hawkish surprise yesterday and raised the policy rate 100 bp (vs. 50 bp expected) to 17.5%, its highest level in 17 years. CBN has hiked 600 bp since the start of the hiking cycle in May. December inflation had fallen unexpectedly to 21.3% y/y (21.8% expected) from 21.5% in November, but the statement says that the MPC considered this drop to be marginal. The MPC believed that a further "aggressive" rate hike was necessary to narrow the negative real interest rate gap and to control inflation. Analysts at JP Morgan note that inflation forecasts are particularly difficult as a new administration could decide to reform fuel subsidies and undertake exchange rate reforms after the elections in late February. They have added 150 bp to their rate forecast, taking the terminal rate to 19%.

Figure 3: Nigeria inflation and policy rate



Thailand

The central bank raised its policy rate by 25 bp to 1.5%, as expected, and signaled further hikes are ahead as it is concerned about demand-driven price pressures. Contacts have high conviction that the central bank will hike again in March but are more divided about hikes after that. Some expect that the global tightening cycle will likely have ended by then. In any case, the policy rate remains relatively low compared to core inflation around 3.2% y/y and Thailand is expected to benefit from China's reopening.

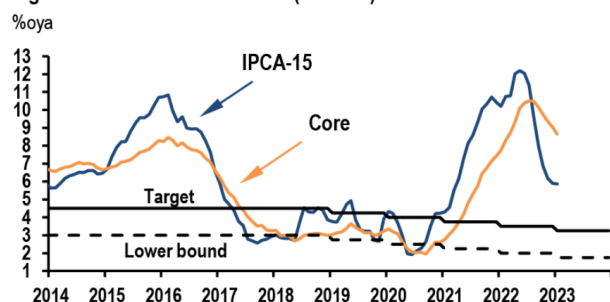
India

India sold 80 bn rupees (\$1 bn) of green securities, including 40 bn each of 10-yr and 5-yr notes. The 10-yr bond priced at a yield of 7.29%, a "greenium" of 6 bp below the same-maturity sovereign debt. Bloomberg estimates that India needs investments of \$12.5 tn in clean energy by 2050 as the world's third-biggest carbon polluter moves away from coal. The proceeds of the green bond will be used for renewable energy projects and infrastructure that bolsters resilience to extreme weather. **Indian companies already have more than \$26 bn in outstanding green debt.**

Brazil

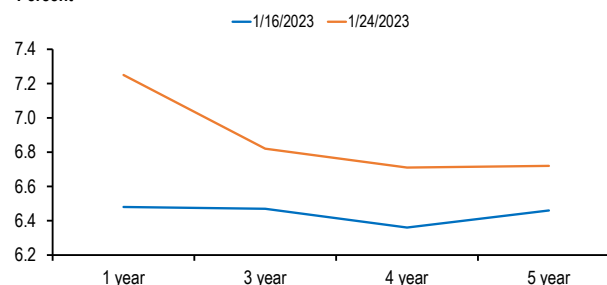
Headline inflation surprised on the upside, but core inflation continues to trend lower. Jan first-half inflation printed at 0.55% m/m (5.9% y/y), vis-à-vis the consensus estimate of 0.51% m/m, while core inflation came in lower than expected at 0.58% m/m. With this, core inflation declined by another 40 bp sequentially to 8.6% y/y. Going forward, analysts expect the fall in "global goods prices" and weaker domestic labor market to contribute to declining inflation, while acknowledging that a loose fiscal policy adopted by the government could counter that by creating inflationary pressures in the medium-term. Brazil's inflation breakeven curve has shifted up over the past one week.

Figure 1: Headline and core CPI (IPCA-15)



Sources: Bloomberg, IBGE and J.P. Morgan






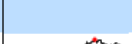
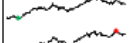


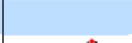
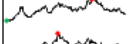
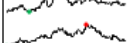

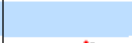
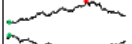


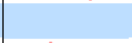






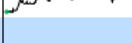



Figure 2: Breakeven inflation rates
Percent



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Global Financial Indicators

1/25/23 8:02 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3999	-0.1	2	4	-8	4	-5
Europe		4130	-0.5	-1	8	1	9	4
Japan		27395	0.4	2	4	1	5	4
China		4182	0.6	3	9	-13	8	-10
Asia Ex Japan		72	-0.2	3	12	-11	11	-9
Emerging Markets		42	0.1	2	11	-13	11	-11
Interest Rates			basis points					
US 10y Yield		3.42	-3.1	5	-33	165	-45	143
Germany 10y Yield		2.10	-5.9	7	-31	218	-48	187
Japan 10y Yield		0.45	2.7	-1	6	30	2	25
UK 10y Yield		3.20	-7.9	-12	-44	203	-47	172
Credit Spreads			basis points					
US Investment Grade		147	0.1	-1	-8	25	-12	4
US High Yield		455	4.4	7	-14	84	-26	48
Europe IG		80	1.2	2	-13	23	-10	9
Europe HY		420	3.3	9	-56	142	-54	68
Exchange Rates			%					
USD/Majors		102.00	0.1	0	-2	6	-1	6
EUR/USD		1.09	-0.1	1	2	-4	2	-4
USD/JPY		129.7	-0.4	1	-2	14	-1	13
EM/USD		51.3	0.1	1	3	-3	3	-3
Commodities			%					
Brent Crude Oil (\$/barrel)		86.0	-0.1	1	2	9	0	2
Industrials Metals (index)		177	-0.1	1	8	-2	7	-6
Agriculture (index)		67	0.1	-1	-1	6	-2	-4
Implied Volatility			%					
VIX Index (% change in pp)		20.0	0.8	-0.3	-0.9	-11.1	-1.7	-11.0
US 10y Swaption Volatility		118.1	1.9	0.5	0.0	35.6	-7.6	23.8
Global FX Volatility		10.2	0.0	-0.1	-0.3	2.7	-0.5	2.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		208	-1.4	11	-9	34	3	-32
Italy		178	1.6	4	-32	41	-37	6
Portugal		87	1.3	1	-13	22	-14	-5
Spain		96	1.1	2	-11	23	-14	-8

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 1/25/2023 8:03 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M			Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
	vs. USD		(+)= EM appreciation						% p.a.							
China		6.79	-0.3	-1.4	2	-7	2	-7		3.2	0.1	5	12	47	15	36
Indonesia		14965	-0.5	0.8	4	-4	4	-4		6.7	4.0	-5	-26	25	-28	17
India		82	0.2	-0.4	1	-8	1	-9		7.4	-2.0	1	2	78.2	-2	
Philippines		55	-0.4	-0.1	1	-6	2	-6		6.0	2.5	-5	-5	140	-5	98
Thailand		33	-0.3	0.5	6	0	5	-2		2.5	3.5	-5	-12	32	-17	24
Malaysia		4.26	0.5	1.3	4	-2	3	-2		3.7	-0.3	-21	-32	4	-31	6
Argentina		185	-0.2	-1.2	-5	-43	-4	-42		85.8	93.7	245	91	3697	-237	3789
Brazil		5.11	0.6	1.4	2	6	3	-2		13.0	-11.9	41	17	151	43	148
Chile		801	0.1	2.8	10	0	6	-1		5.2	0.0	4	-20	-36	-19	-76
Colombia		4515	0.2	4.1	5	-12	7	-13		9.6	-2.5	7	17	228	-16	174
Mexico		18.79	0.0	0.5	3	10	4	8		8.2	-3.5	-2	-25	69	-50	39
Peru		3.9	-0.3	-1.3	-2	-1	-2	-4		8.1	0.1	6	7	198	8	205
Uruguay		39	0.1	0.4	1	14	2	8		10.2	-16.9	-25	-41	146	-52	201
Hungary		358	-0.1	2.1	5	-11	4	-11		7.6	-7.0	35	-169	295	-196	283
Poland		4.33	-0.1	0.8	1	-6	1	-6		5.2	-6.8	24	-87	135	-93	132
Romania		4.5	0.1	1.4	3	-3	2	-3		7.3	0.0	0	-44	233	-39	215
Russia		69.1	0.3	0.0	0	14	7	18		10.4	-30.0	-136	-77	62	-142	-74
South Africa		17.2	0.1	-0.4	-1	-11	-1	-12		8.7	-4.5	3	-35	100	-47	111
Turkey		18.81	-0.1	-0.3	-1	-28	-1	-27		10.1	4.0	7	-40	-1240	29	-1230
US (DXY, 5y UST)		102	0.1	-0.4	-2	6	-1	6		3.55	-3.0	11	-31	199	-46	164

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				Since		Level		Change (in basis points)				Since	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	7 Days	30 Days	12 M	YTD	23-Feb-22	
									basis points							
China		4182	0.0	3	9	-13	8	-10		186	4	-1	-16	9	-22	
Indonesia		6830	-0.5	1	0	3	0	-1		154	-6	3	-27	14	-31	
India		60205	-1.3	-1	-1	4	-1	5		146	-5	-1	2	4	-8	
Philippines		7081	0.6	0	8	-2	8	-4		122	-3	13	12	25	-15	
Thailand		1682	0.0	0	3	2	1	-1		0	0	0	0	0	0	
Malaysia		1499	-0.1	0	2	-1	0	-5		108	4	6	-12	8	-25	
Argentina		252108	0.7	-3	34	196	25	176		1842	-50	-340	-111	-363	105	
Brazil		113028	1.2	1	3	3	3	1		273	2	-7	-48	-1	-58	
Chile		5251	-1.0	0	0	16	0	20		141	-3	8	-12	9	-33	
Colombia		1311	-1.6	-2	5	-14	2	-13		366	-4	-10	7	-6	-26	
Mexico		54871	1.0	3	8	7	13	7		357	-3	-24	10	-24	-13	
Peru		23142	0.5	2	9	1	8	-1		198	6	18	40	18	8	
Hungary		46444	-1.0	-1	3	-9	6	-3		220	-13	2	92	-2	67	
Poland		60629	-1.4	-1	6	-10	6	-3		94	-8	14	74	21	78	
Romania		12190	0.1	2	0	-5	5	-8		248	-14	-12	48	-8	16	
Russia		2174	0.1	-1	2	-33	1	-30		3411	-577	938	3228	3234	2897	
South Africa		79747	-0.4	0	9	10	9	6		365	8	-6	-15	-2	-24	
Turkey		5153	-4.0	-4	-6	165	-6	156		503	1	59	-51	63	-60	
Ukraine		507	0.0	0	-2	-3	-2	-2		4089	-74	71	3086	10	2616	
EM total		42	-0.3	2	11	-13	11	-11		368	-3	-6	-57	-7	-90	

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