



- Markets see odds of Democratic control of Senate rising, lifting stimulus bets ([link](#))
- UK government announces third lockdown ([link](#))
- EM fund flows remained strong in final weeks of 2020 ([link](#))
- US had its worst month of the pandemic in December, with vaccinations slow ([link](#))
- NYSE reverses course on delisting of three Chinese telecom giants ([link](#))
- **GMM Special Feature: ESG Monitor for Q4 2020** (see attachment)

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Georgia's election in focus

After strong gains in most markets to close out 2020, early trading so far in 2021 has encountered turbulence on COVID fears and uncertainty over today's special election in the US. US equities yesterday stumbled 1.5% and the VIX hit a two-month high as investors saw lockdowns renewed or extended in the UK, Italy, Japan, and Germany and displayed anxiety over the slow pace of vaccinations. Markets were also roiled by rising uncertainty around today's double senate election in the US state of Georgia. Investors have in recent days lifted the odds of a Democratic sweep to about a toss-up, a scenario that would deliver unified control of the government to the Dems and likely bring further stimulus. While there is agreement that a blue sweep would deliver higher Treasury yields, inflation, and growth, analysts are divided about the impact on the stock market, citing the potential for higher corporate tax rates and increased regulation. Emerging market have largely shrugged off the volatility, as rising market-based inflation measures in the US have helped push down US real yields and the dollar, providing a tailwind to EM assets and the commodity complex.

Key Global Financial Indicators

Last updated: 1/5/21 8:09 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		3701	-1.5	0	0	14	-1
Eurostoxx 50		3542	-0.6	-1	0	-6	0
Nikkei 225		27159	-0.4	2	2	15	-1
MSCI EM		52	0.6	4	2	16	1
Yields and Spreads			bps				
US 10y Yield		0.93	2.0	0	-3	-85	2
Germany 10y Yield		-0.59	1.2	-2	-5	-31	-2
EMBIG Sovereign Spread		350	-1	-5	-7	50	-1
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.7	-0.4	0	1	-5	0
Dollar index, (+) = \$ appreciation		89.7	-0.2	-1	-1	-7	0
Brent Crude Oil (\$/barrel)		51.9	1.6	2	5	-24	0
VIX Index (% change in pp)		27.7	0.7	6	7	14	5

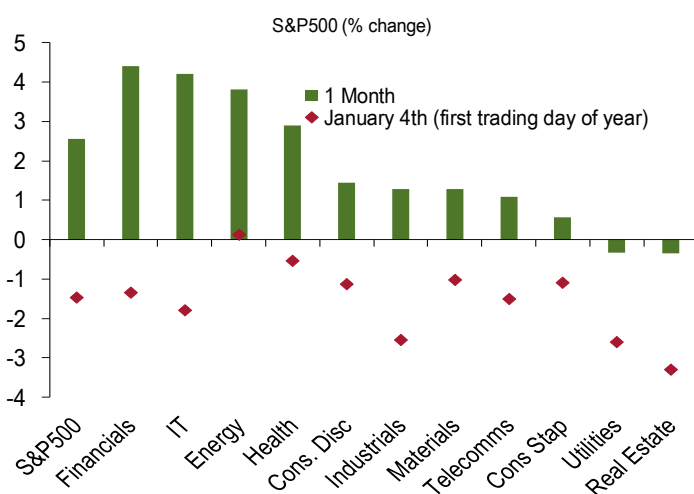
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

In the week ahead, markets will focus on the Georgia Senate runoff today to assess the likelihood of additional fiscal stimulus, though the outcome may not be clear for several days. US factory orders will be released on Wednesday, jobless claims on Thursday, and the jobs report for December on Friday. The FOMC meeting minutes will be released on Wednesday as well. Elsewhere, Europe will report inflation and industrial production data throughout the week in a number of countries. In emerging markets, various PMIs in India, Brazil, China, and South Africa will be released, alongside inflation figures in several key markets like Mexico and Colombia.

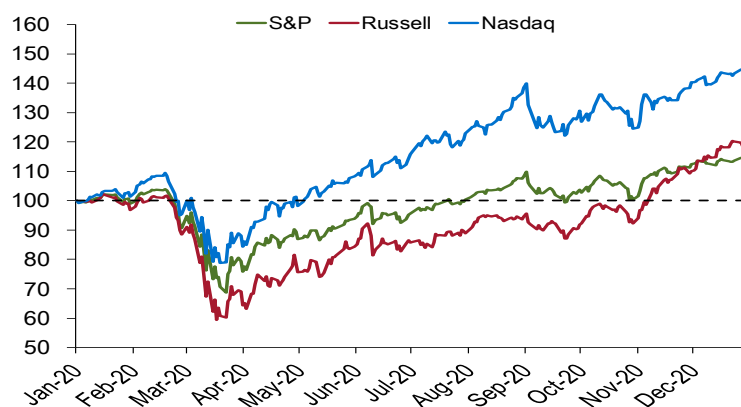
United States

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Equities sold off in a tepid start to 2021. The S&P 500 and Nasdaq fell 1.5% after last month's solid gains, as renewed fears over COVID-19 dampened sentiment. New lockdowns in Europe and slow progress with vaccinations in the US raised concerns that normalization might take longer than expected. Energy was the only sector to record gains despite oil prices dipping lower, with OPEC+ extending talks for another day. Treasury yields ended the day little changed, with the 10-year flat and the 30-year up 1 bp at market close. The dollar index was little changed.

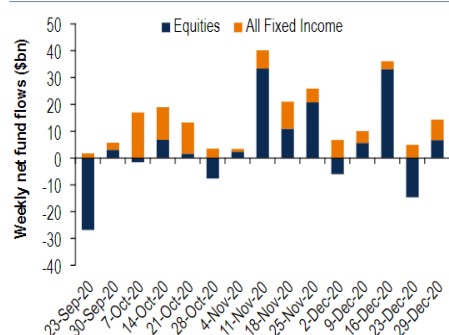


Equities closed out a remarkable year with sizeable gains in 2020. The COVID-19 market sell off and rapid rebound saw huge moves for individual stocks, with surging tech stocks year driving outperformance for the Nasdaq 100, before the value rotation amid the post-election vaccine optimism helped the small-cap Russell 2000 recover in November and December. The S&P fell 31% through March 23 before rallying over 67% for a full year gain of 16%.



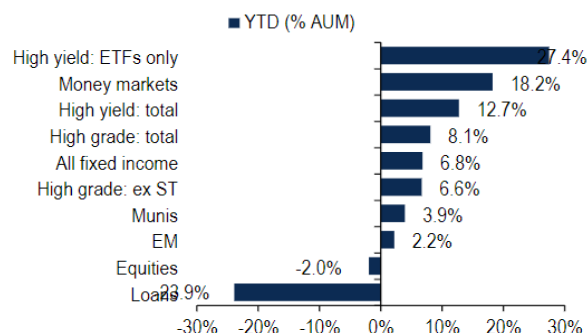
Fund flows ended a turbulent year on a positive note, with equity inflows recovering in November and December. Fixed income funds ended the year with strong annual inflows, led by high yield ETFs in relative terms at 27% of AUM, while loan funds saw large outflows, according to EPFR and BofA data. Equity funds experienced full year outflows of \$290 billion (-2% of AUM) but recovered strongly in November and December following the broad uptick in risk sentiment surrounding the vaccine announcements.

Figure 1: Flows for the broad US asset classes: stocks and bonds



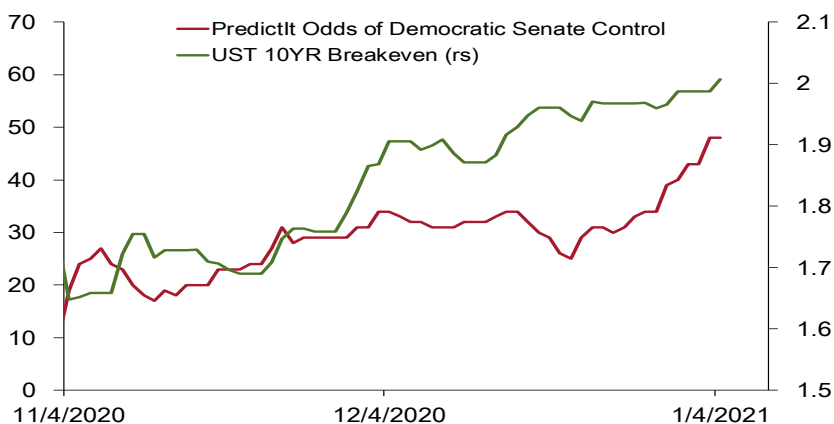
Note: the flows data is for US-domiciled funds and ETFs.
Source: EPFR Global.

Figure 4: Year to date fund flows, % of AUM



Note: Global EM funds, US-domiciled funds only for other fund types.
Source: EPFR Global, BofA Global Research

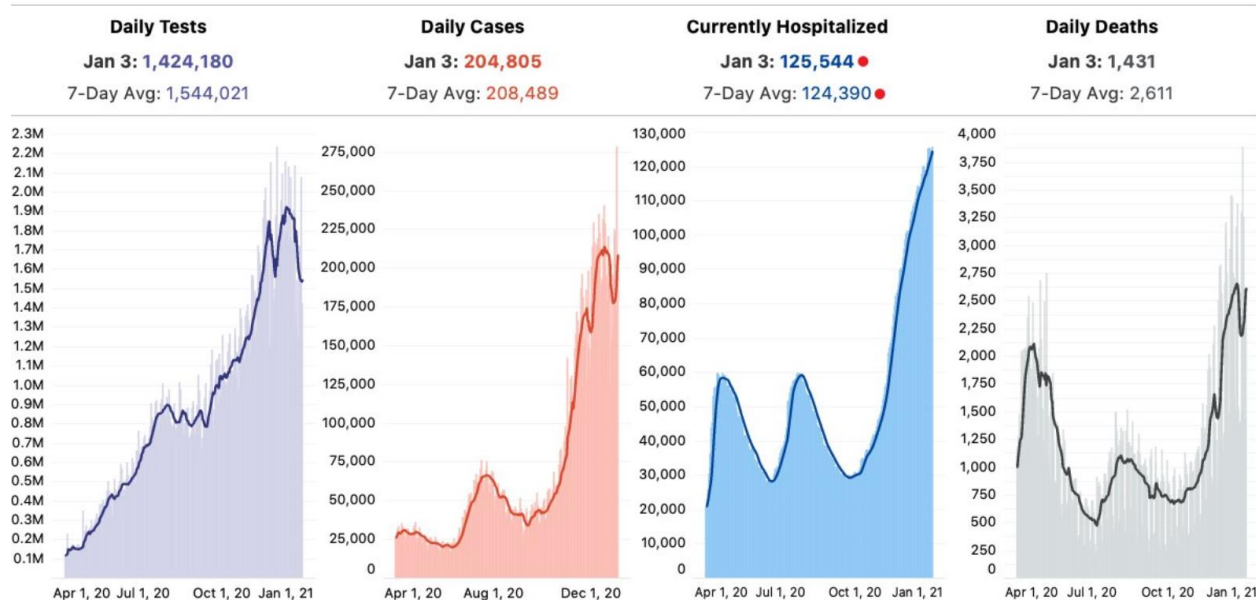
Investors see possibility of more stimulus and inflation with the odds of Democratic control of the Senate rising. Prediction markets have moved the chance of victory for the Democratic candidates in Tuesday's double run-off election in Georgia to a toss-up. 10-year Treasury breakeven rates rose above 2% on Monday for the first time since 2018. Market analysts see the potential for more expansive fiscal plans in both the short- and medium-term if the Democrats secure unified control of the government. Goldman Sachs analysts expect an additional \$600 bn in stimulus in the near-term if Democrats win, though the likelihood of tax increases over the next few years would also rise.



The US had its worst month of the pandemic in December, with over 6 million infections out of nearly 20 million in total. Vaccinations have proceeded slower than expected as well, with just 4.3 million people receiving doses as of January 2, compared to initial plans for 20 million through December.

NATIONWIDE COVID-19 METRICS. 7-DAY AVERAGE LINES

Apr 1 - Jan 3



Source: The COVID Tracking Project

● Single-day Record

Europe

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The euro (+0.3% to €1.23) opened the year stronger. German labor market and retail sales data were both better than expected. German retail sales rose 2% mom in November (-2% expected).

European equities (-0.5%) traded with a cautious tone.

10-yr bund yields are little changed at -59 bps as the German government is considering tighter covid-19 restrictions. Officials are reportedly discussing whether to reopen schools after holidays and further mobility restrictions.

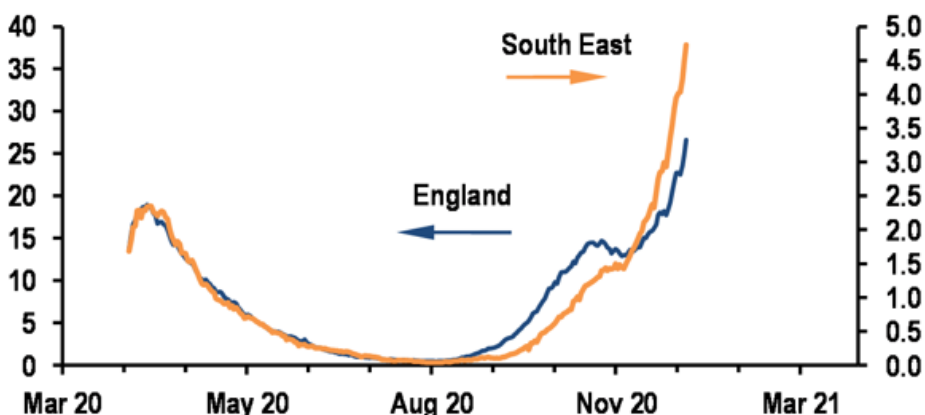
Italian 10-yr spreads (+1 bps to 117 bps) are steady after Italy issued new 15-yr benchmark bonds. The Italian government extended current restrictions through mid-January. PM Conte will reportedly agree to make some changes to his government after former PM Renzi threatened to withdraw his support for the M5S-PD government coalition citing disagreements on the management of the EU Recovery fund and ESM support. Contacts do not see any risk of snap elections in 2021 as polls suggest coalition parties could suffer a major loss of seats.

United Kingdom

Yesterday, the government announced a third lockdown as spare capacity in hospitals is shrinking rapidly. Schools have been ordered to close and people can only leave their home for a limited set of essential activities. The tightness of the restrictions is comparable to the first lockdown in spring 2020. JP Morgan now expects UK GDP to fall 2.5%q/q (-9.5% annualized) compared to a gain of +0.1% prior to the announcement of the lockdown. The British pound fell 0.6% yesterday but is little changed today.

UK: Covid-19 patients in hospital

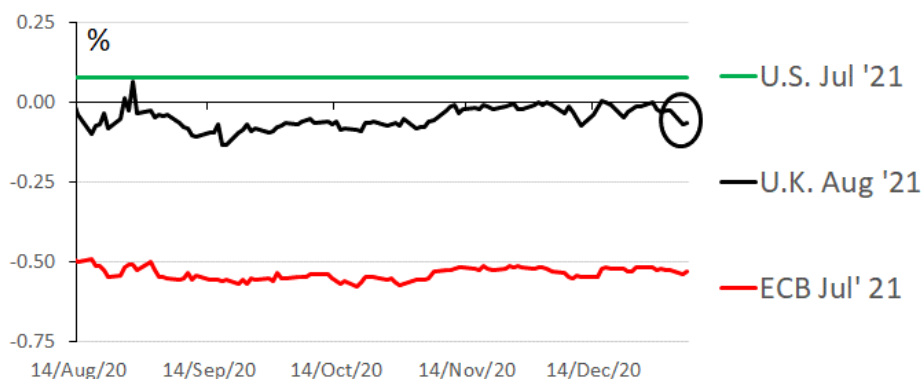
Thousands, daily data



Source: UK government

The U.K. government also announced a target to vaccinate 13.9 mn of people at the highest risk from covid-19 by mid-February. Additional economic support of £4.6 bn will be available to help businesses survive a third lockdown. Retail, hospitality and leisure businesses will be entitled to one-off grants of as much as £9k. Traders also expect further action of the BoE, with swap markets once again pricing in a negative policy rate later in 2021 (current: 10 bps).

G-3 Policy Rates at mid 2021 (from swaps, %)



Source: Bloomberg WIRP and IMF staff

Other Mature Markets

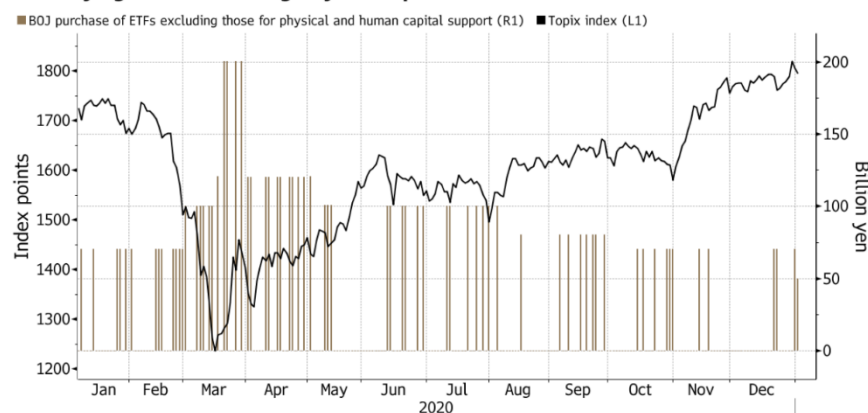
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Japan

Japanese equities declined amid concerns over the COVID-19 situation. Share prices dropped (NIKKEI: -0.4%; TOPIX: -0.2%). Reportedly, a state of emergency could be declared as early as January 7. Some analysts noted that the virus concern would weigh on equities but would not reverse the trend of rising share prices. Furthermore, the Bank of Japan's continued purchases of ETFs would help cushion any decline in share prices. The **yen appreciated (+0.2%)**.

Downside Support

BOJ buying seen cushioning any stock price declines

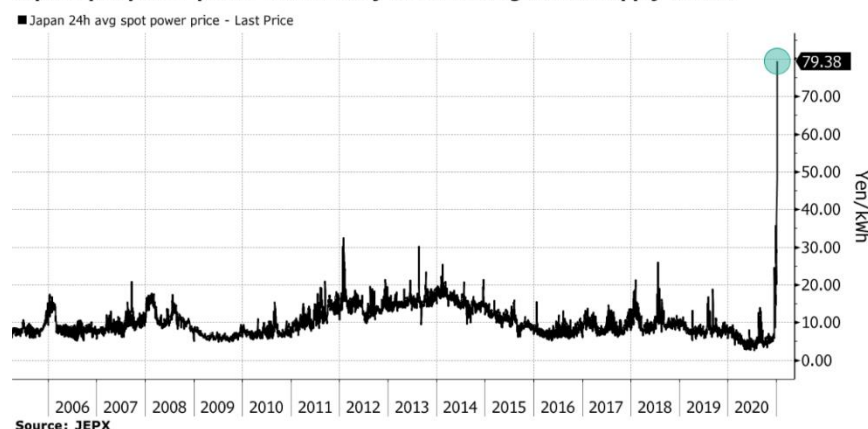


Source: BOJ, Bloomberg

Japan's spot electricity prices hit a historical high for the fourth straight day. Prices began to rally last month as colder-than normal winter weather boosted demand for heating. Furthermore, utilities were forced to curb generation at gas-fired power plants due to lower-than-normal inventories of the fuel. The 24-hour average spot electricity price for next-day delivery increased 27% today, well above the previous year's average. The government is investigating whether there are any speculative actions.

Historic Gains

Japan spot power prices extend rally to record high amid supply crunch



Source: JEPX

Emerging Markets

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Most Asian stock markets gained, led by Chinese (+1.8%), Korean (+1.6%), and Thai (+0.9%) equities. Share prices dropped in the Philippines (-0.9%). **Asian currencies were mixed.** Korean won (-0.5%) led the depreciation, while Australian dollar (+0.5%) and New Zealand dollar (+0.5%) appreciated on safe-haven demand amid the worsening COVID-19 situation in the northern hemisphere. RMB was little changed onshore while appreciating (+0.2%) offshore. **In the Philippines**, CPI inflation unexpectedly increased to 3.5% y/y in December, from 3.3% in November. Philippine peso depreciated (-0.1%). **In Indonesia**, the government plans to issue long-term US dollar bonds (10-year, 30-year and 50-year). Some large SOEs also plan to issue US dollar bonds with maturity beyond 30 years for the first time.

EMEA bourses were mixed, with strong gains in the MENA region and notable losses in some CEE countries. Stocks advanced in Qatar (+1.4%), UAE (+1.2%), South Africa (+0.7%), Kuwait (+0.7%), and Egypt (+0.4%). Losses were seen in the Czech Republic (-0.7%), Hungary (-0.5%), and Russia (-0.4%).

Currencies appreciated to the US dollar by about 0.2% to 0.5%, except for the Russian ruble (-0.5%) and the South African rand (-0.9%).

Latin American equity markets were mixed on Monday. Equities in Chile (1.9%) and Mexico (1.4%) advanced, whereas Colombian equities fell (-1.4%). Currency markets were relatively quiet. Mexico is selling a 50-year dollar-denominated bond, joining several other Latin American governments looking forward to lengthening their debt profiles. The \$3 billion offering saw a \$10 billion in demand, according to a twitter post by the Finance Minister Arturo Herrera.

Key Emerging Market Financial Indicators

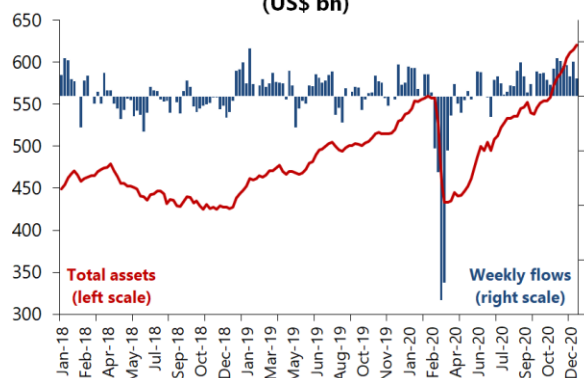
Last updated: 1/5/21 8:12 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		52.00	0.5	4	2	16	1
MSCI Frontier Equities		28.47	0.4	1	1	-7	0
EMBIG Sovereign Spread (in bps)		350	-1	-5	-7	50	-1
EM FX vs. USD		57.77	-0.4	0	1	-5	0
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.46	0.0	1	1	8	1
Indonesian Rupiah		13915	-0.1	2	1	0	1
Indian Rupee		73.18	-0.2	0	1	-2	0
Argentine Peso		84.79	-0.1	-1	-4	-29	-1
Brazil Real		5.34	-1.3	-3	-4	-24	-3
Mexican Peso		20.04	-0.3	-1	-1	-6	-1
Russian Ruble		74.70	-0.4	-1	-1	-17	-1
South African Rand		15.01	-1.9	-2	1	-5	-2
Turkish Lira		7.39	0.5	0	6	-19	1
EM FX volatility		10.73	0.0	0.1	0.4	4.0	0.0

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

Emerging Market Fund Flows

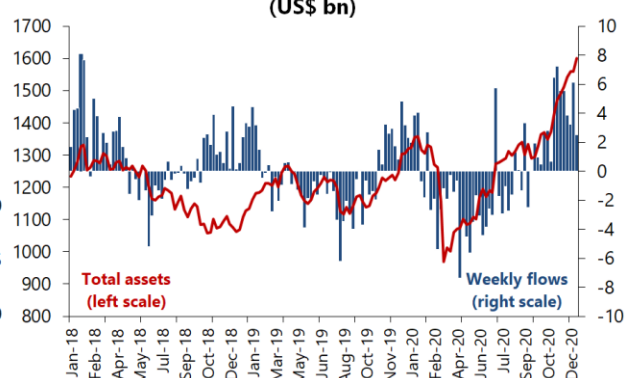
Emerging market bond and equity flows were both positive in the last week of 2020. Bond flows (\$1.7 bn) saw another positive value for the 13th consecutive week. Cumulative bond flows since the beginning of 2020 turned out to be positive (\$7.2 bn), mostly driven by the continued inflows throughout the second half of the year which offset the dramatic outflows in March 2020. Equity flows (\$2.5 bn) had the 15th consecutive week with inflows. In contrast to the bond flows, however, cumulative equity flows since the beginning of 2020 remained negative (\$-4.5 bn), despite the strong inflows in the last quarter.

ETF & Mutual Funds: Emerging Market Bond Flows (US\$ bn)



Source: EPFR

ETF & Mutual Funds: Emerging Market Equity Flows (US\$ bn)



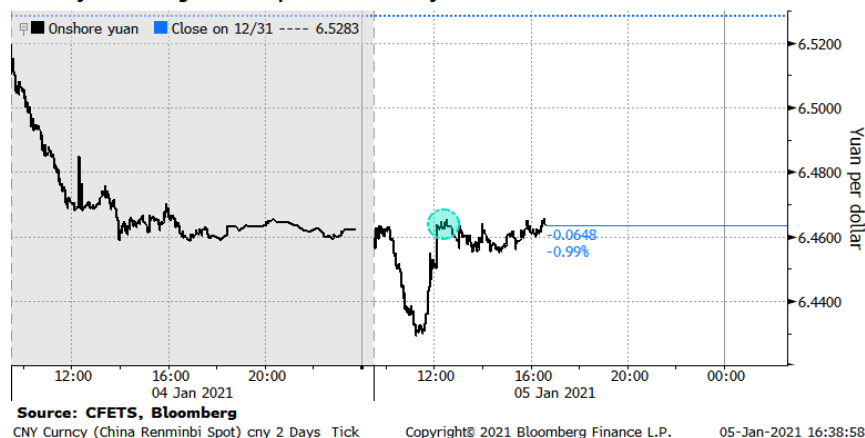
Source: EPFR

China

The RMB held on to gains after the New York Stock Exchange (NYSE) dropped the plan to delist China telecom firms. The NYSE said that it will no longer delist China's three largest state-owned telecom firms, backtracking on its initial plan with scant explanation. Four days ago, the NYSE announced its intention to delist the Chinese firms with the Chinese military tie to comply with a U.S. Executive Order. Share prices of these telecom firms rose 3.3% to 8.5% in Hong Kong trading today. The RMB appreciated in the morning trading session onshore, touching 6.43 RMB per USD before a sharp reversal, which was reportedly driven by USD purchases by state-owned banks. RMB was little changed onshore while appreciating (+0.2%) offshore.

Quick Reversal

China's yuan erases gain in abrupt move on Tuesday



Russia

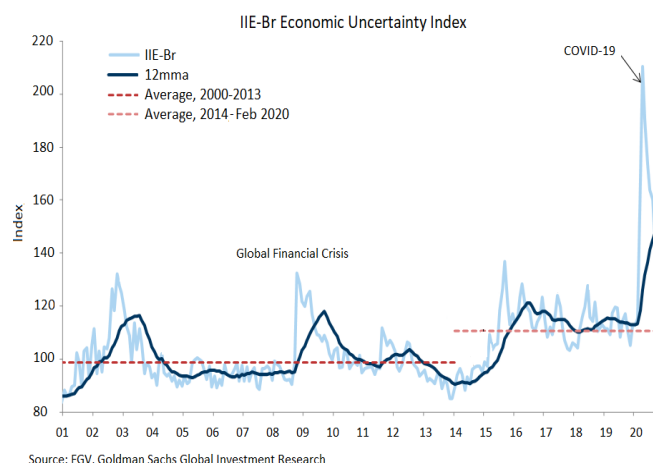
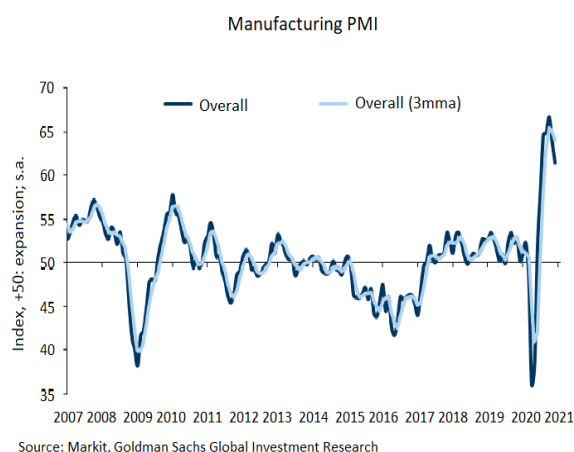
The ruble underperformed peers today on the back of OPEC disagreements. The ruble weakened about 0.5% to the dollar while other the currencies of other oil producers strengthened 0.1% to 0.4% to the USD. The weakness in the ruble came as OPEC resumed talks on Tuesday on production plans. Reportedly, Russia and Kazakhstan are pushing for an increase of production of around ½ million barrels per day. OPEC officials are growing concerned again that the re-imposition of severe lockdowns across nations will dampen demand again. That said, oil traded higher on the day: Brent (+0.3%) at \$51/barrel and WTI (+0.5%) at \$48/barrel. **Equities in Moscow dropped 0.4%, also underperforming peers in the region.**

Russia: Selected Indicators



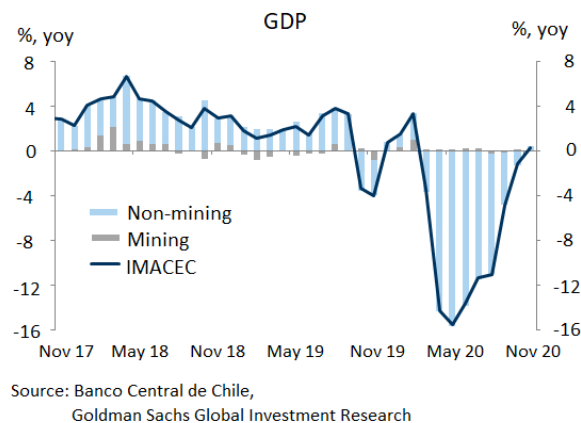
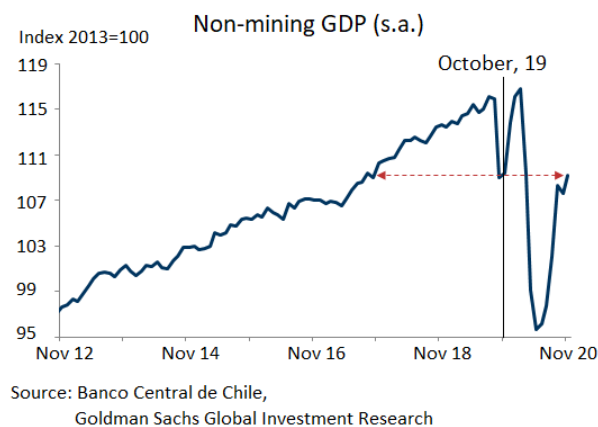
Brazil

The Manufacturing PMI fell but remained in expansionary territory in December, while economic uncertainty stayed high. The Markit Manufacturing PMI decreased (-2.4 pts) in December, adding to the decline in November. The November-December declines ended the series of improvements during last 6 months. Despite these declines in the last two months of 2020, the manufacturing PMI is still in expansionary territory (at 61.5 pts). The FGV Economic Uncertainty Index (IIE-Br) also decreased (-3.5pts) in December (to 142.3 pts). The index is still 27.2 pts higher than the February level, pointing to the challenging investment conditions in spite of the low rate environment. Amid the vaccine news, the fact that the COVID-19 is still not under the control may keep contributing to the uncertainty in coming weeks.



Chile

Monthly real GDP (IMACEC) increased 0.3% yoy in November. This is higher than the October (-1.2% yoy) and September (-4.8% yoy) prints. This annual number in November (vs September) was partially driven by the base effect from the 2019 social unrest. Sequentially, real GDP increased 3.0% mom sa. The level of real GDP, however, is still 5.6% below the pre-October 2019 protests and 6.3% lower than the February level (pre-COVID-19). The sequential expansion in November partly reflects the improved social mobility during the month. Looking forward, the approval of the second pension fund withdrawal in December may contribute to stronger GDP numbers in coming months.








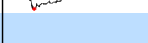











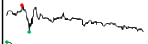




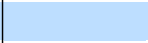



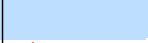


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Global Financial Indicators

Last updated: 1/5/21 8:09 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		3700	-1.5	-1	0	14	-2
Europe		3542	-0.6	-1	0	-6	0
Japan		27159	-0.4	2	2	15	-1
China		3529	0.7	4	2	14	2
Asia Ex Japan		90	0.9	4	3	23	1
Emerging Markets		52	0.6	4	2	16	1
Interest Rates							
			basis points				
US 10y Yield		0.93	2.0	0	-3	-85	2
Germany 10y Yield		-0.59	1.2	-2	-5	-31	-2
Japan 10y Yield		0.01	-1.0	-1	-1	2	-1
UK 10y Yield		0.19	1.7	-2	-16	-55	-1
Credit Spreads							
			basis points				
US Investment Grade		98	0.5	3	-3	-5	3
US High Yield		382	-0.9	1	-19	-19	2
Europe IG		50	1.2	2	3	5	2
Europe HY		260	7.7	22	17	47	17
EMBIG Sovereign Spread		350	-0.8	-5	-7	50	-1
Exchange Rates							
			%				
USD/Majors		89.71	-0.2	-1	-1	-7	0
EUR/USD		1.23	0.2	0	1	10	0
USD/JPY		102.9	0.3	1	1	5	0
EM/USD		57.7	-0.4	0	1	-5	0
Commodities							
			%				
Brent Crude Oil (\$/barrel)		52	1.6	2	5	-24	0
Industrials Metals (index)		137	0.8	1	2	19	3
Agriculture (index)		48	1.1	5	13	18	1
Implied Volatility							
			%				
VIX Index (%, change in pp)		27.7	0.7	5.9	6.9	13.6	4.9
US 10y Swaption Volatility		63.4	0.7	3.7	3.8	-2.1	3.3
Global FX Volatility		8.1	0.0	0.1	0.0	2.0	0.0
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		120	0.0	-1	2	-49	0
Italy		111	0.0	-2	-6	-51	0
Portugal		60	0.0	0	1	-4	0
Spain		62	0.0	-1	-1	-5	0

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: 1/5/2021 8:12 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)							
	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		
	vs. USD		(+) = EM appreciation						% p.a.						
China		6.46	0.0	1.0	1	8	1		3.3	2.7	-1	-11	15	3	
Indonesia		13915	-0.1	1.5	1	0	1		6.0	-5.6	0	-17	-113	-6	
India		73	-0.2	0.3	1	-2	0		5.9	-2.9	-5	-3	-89	-3	
Philippines		48	-0.1	-0.1	0	6	0		3.6	-0.4	1	0	-67	0	
Thailand		30	-0.2	0.3	1	1	0		1.3	-3.2	-7	-17	-27	-3	
Malaysia		4.02	-0.3	0.8	1	2	0		2.5	-3.4	-3	-9	-79	-3	
Argentina		85	-0.1	-0.9	-4	-29	-1		56.1	0.1	-95	173	-544	0	
Brazil		5.34	-1.3	-2.6	-4	-24	-3		5.6	-1.0	-10	-39	-66	-1	
Chile		705	-0.3	1.4	5	10	1		2.7	-3.5	-4	-25	-57	-4	
Colombia		3460	-0.3	0.5	1	-6	-1		5.0	-5.7	-9	-15	-97	-6	
Mexico		20.04	-0.3	-0.6	-1	-6	-1		5.6	-0.4	3	-20	-130	0	
Peru		3.6	-0.3	-0.3	-1	-8	0		3.6	-3.6	-1	-27	-90	-4	
Uruguay		42	-0.4	-0.5	1	-12	0		7.3	1.9	-9	-7	-354	2	
Hungary		294	0.5	1.4	1	0	1		1.5	-4.2	-2	-18	37	-4	
Poland		3.70	0.4	0.0	0	2	1		0.6	-2.3	-7	-13	-124	-2	
Romania		4.0	0.2	0.2	1	7	0		2.7	-7.0	-7	-21	-130	-7	
Russia		74.7	-0.4	-0.9	-1	-17	-1		5.7	0.0	-2	15	-41	0	
South Africa		15.0	-1.9	-1.9	1	-5	-2		9.6	-6.5	-3	-29	8	-7	
Turkey		7.39	0.5	0.0	6	-19	1		13.1	2.6	7	4	126	3	
US (DXY; 5y UST)		90	-0.2	-0.7	-1	-7	0		0.36	1.1	-2	-6	-123	0	

	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		5369	1.9	6	6	30	3		208	0	2	2	31	0
Indonesia		6137	0.5	2	6	-3	3		185	1	-1	8	15	-2
India		48438	0.5	2	7	17	1		151	0	-3	-4	25	0
Philippines		7134	-0.9	-1	0	-9	0		100	-1	-4	-6	19	-5
Malaysia		1608	0.4	-2	-1	0	-1		111	-1	-2	-4	1	1
Argentina		50731	-1.0	1	-7	25	-1		1404	4	35	-25	-543	36
Brazil		118855	-0.1	1	4	1	0		253	2	1	-2	29	3
Chile		4262	1.9	3	2	-12	2		143	-1	1	-1	5	-1
Colombia		1418	-1.4	0	6	-15	-1		209	1	5	3	38	4
Mexico		44703	1.4	3	2	0	1		369	2	-6	-38	70	9
Peru		21013	0.9	1	2	2	1		131	0	-5	-17	12	-1
Hungary		42217	-0.3	2	8	-9	0		95	0	1	1	-1	-1
Poland		58024	0.1	4	5	-1	2		-1	0	-1	-5	-26	0
Romania		9800	-0.4	1	3	-1	0		201	-2	0	-2	23	-2
Russia		3339	-0.4	3	5	9	2		168	2	7	1	18	2
South Africa		60700	0.4	3	2	5	2		382	6	-1	8	52	2
Turkey		1493	-0.1	4	12	31	1		451	5	-4	-24	42	6
Ukraine		499	-0.1	-2	-2	-2	0		488	6	-6	5	90	-3
EM total		52	0.5	4	2	16	1		421	0	17	-10	97	128

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

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