GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, JANUARY 14, 2025

LEAD EDITOR: SANJAY HAZARIKA

- **US PPI comes in lower than expected** (link)
- **New loan issuance in China declined in 2024 for the first time in 13 years** (link)
- **40-year JGB yield hits highest level since its inception in 2007** (link)
- **High US equity valuations could be justified by better quality of companies** (link)
- **Oil prices at six-month high on new US sanctions on Russia** (link)
- **Interest rates in Chile hit six-month high on inflation fears** (link)

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Global markets confront multiple challenges

As the new US administration prepares to take office, global markets face multiple challenges. The surge in interest rates has caused risk assets to start the year in the red, while uncertainty about US inflation keeps investors on edge. However, markets found some relief today on rumors that the new US administration is considering gradual tariffs that ramp up in steps to prevent a surge in inflation. In India, the central bank's efforts to support the rupee have added to the onshore liquidity squeeze driven by corporations settling tax bills and investor cash demand for shares purchases, according to Bloomberg. The Reserve Bank of India (RBI) reportedly carried out dollar-rupee swaps worth around US$ 3 bn last Friday to ease liquidity conditions. The equity market in Argentina experienced a major 5.3% decline yesterday amidst continued worries about FX reserves and ongoing negotiations for new IMF funding, according to press reports.

Key Global Financial Indicators

Last updated: 1/14/25 8:01 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5836	0.2	-2	-4	22	-1
Eurostoxx 50		4998	0.9	0	1	12	2
Nikkei 225		38474	-1.8	-2	-3	7	-4
MSCI EM		41	-0.7	-3	-7	4	-2
Yields and Spreads					bps		
US 10y Yield		4.78	0.4	10	39	84	21
Germany 10y Yield		2.62	1.1	14	37	44	26
EMBIG Sovereign Spread		323	4	4	2	-75	-2
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		42.9	0.0	0	-2	-10	0
Dollar index, (+) = $ appreciation		109.6	-0.3	1	2	7	1
Brent Crude Oil ($/barrel)		80.7	-0.4	5	8	3	8
VIX Index (%, change in pp)		19.0	-0.2	3	5	6	2

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

Mature Markets

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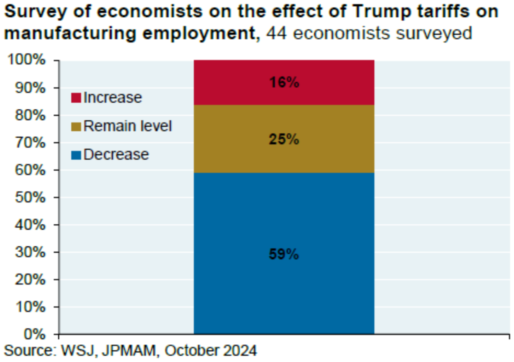
United States

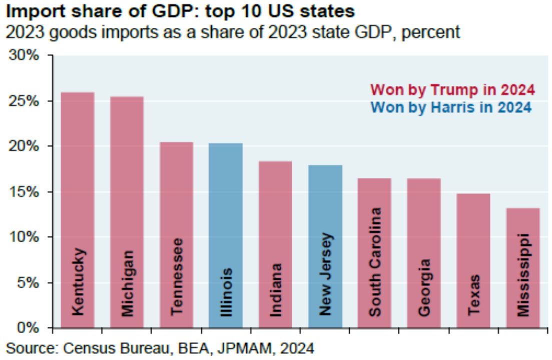
The latest PPI data came in much lower than expected, with the core month-on-month number actually flat. Treasuries rallied on the news, pushing yields 3–4 bps lower across the curve. The dollar was slightly weaker. However, the relatively muted response shows that tomorrow's CPI report is the main focus.

US PPI Report 8.30 am
Source: Bloomberg

Variable	Consensus Forecast	Actual Data Print
PPI month-on-month	+0.4%	+0.2%
Core PPI mom	+0.3%	0%
PPI year-on-year	3.5%	3.3%
Core PPI yoy	3.8%	3.5%

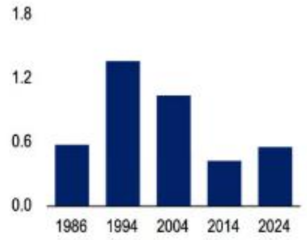
Worries about tariffs have moved to center stage as markets prepare for a new US administration. Much of the concern focuses on the potential damage tariffs might cause to the US economy. In addition to potentially reigniting inflation, tariffs could have further downstream effects on the economy that could be equally negative. Most economists think that tariffs will do little to aid employment, with the majority in a recent poll taking the view that tariffs will not add to employment but could actually reduce employment though their disruptive impact. In addition, many US states import a large share of goods from overseas relative to their state GDP. This is especially true in many states won by President-Elect Trump in the recent election.





US equity valuations are extremely expensive by historical standards and many are worried that the market is at risk of a severe selloff. The Shiller Cyclically Adjusted Price-Earnings ratio (CAPE) is at 37, double the long term average. The price action early in the new year has reinforced these fears, with US markets starting the year in the red. The ongoing surge in interest rates has further darkened the outlook for risk assets. However, some analysts, while agreeing that downside risks are high, point out that measures such as the CAPE are flawed when it comes to evaluating successful modern US corporations. Relative to previous years, these companies are much more profitable, generate much higher free cash flow, have much higher credit quality and much lower leverage, and are much less reliant on physical plant or machinery. In the 1980s, 60% of the S&P 500 was concentrated in various types of manufacturing, while today, technology companies dominate the market. These positive changes justify more expensive multiples, although short term risk could be very high at the moment. Moreover, market leading euro area companies such as ASML, SAP, LVMH and Hermes also have CAPE ratios in the 34–37 range.

Exhibit 31: Lower financial leverage than 1990s-2000s
S&P 500 non-Financials net debt/Equity, 1986-present



Source: FactSet, BofA US Equity & Quant Strategy
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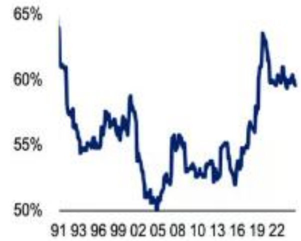
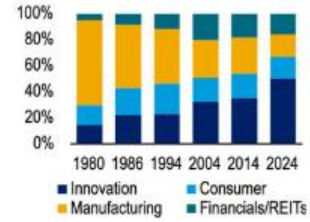
Exhibit 32: Higher quality composition than prior decades
S&P 500: % of B+ or better quality-rated stocks, 1990-10/24



Source: FactSet, BofA US Equity & US Quant Strategy
BofA GLOBAL RESEARCH

Exhibit 33: More asset-light
% of S&P 500 market cap by sector



Source: Haver Analytics, FactSet, BofA US Equity & Quant Strategy* present (Asset light / Innovation = Tech, Comm. Services ex-Telecom & Health Care, Consumer =Staples/Discretionary, Manufacturing/Asset Intensive/Capex = Industrials, Materials, Energy, Utilities, Telecom)
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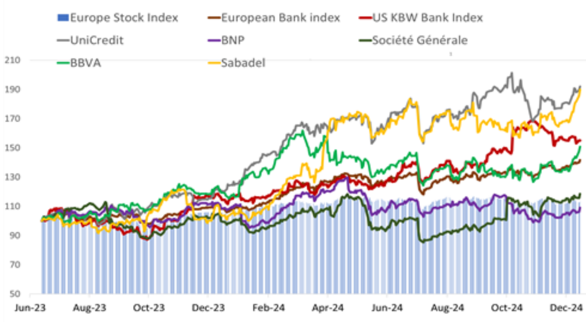
Euro Area

European equities were up, mirroring gains in Asian stocks in early morning trading, **on news that members of President-elect Donald Trump's economic team discussed a gradual approach to ramping up tariffs**. The Stoxx 600 index edged higher (+0.6%) led by gains in the information technology (1.2%), banking (1.1%) and consumer discretionary goods sectors, with all major European bourses advancing this morning.

European Equities (June 2023=100)



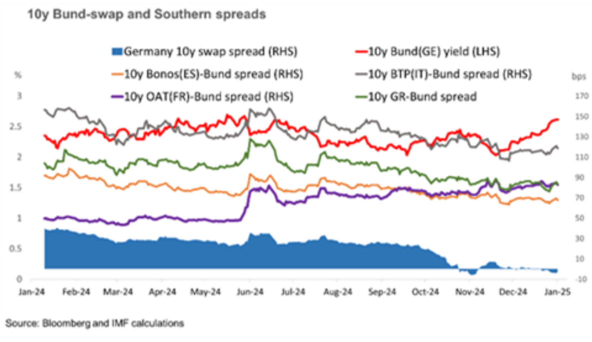
Source: Bloomberg and IMF calculations

European Banks' P/E vs. KBW Bank Index

Source: Bloomberg Intelligence

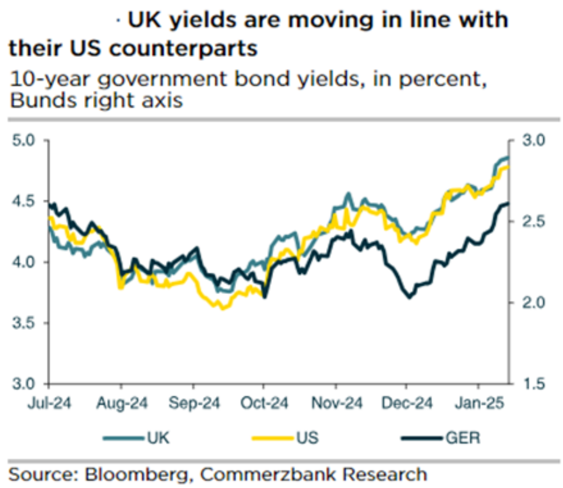
The European banking sector outperformed the market in 2024 and started 2025 relatively strong with the Stoxx 600 Banks index up by 2.8% YTD (vs. Stoxx 600 Index 0.7%). Still, analysts at Bloomberg note that the € 500bn surge in the market capitalization of European banks since the end of 2022 was not enough to bridge the valuation gap with US banks, as the European banking sector continues to trade at a record discount vis-à-vis its US peer with an average P/E ratio of 7x compared to 13.3x in the US. Analysts believe that expectations of less regulation and higher interest rates have lifted US bank share prices, while stricter regulatory requirements and taxes are drags on European banks, in addition to possibly lower net interest income if economic growth weakens.

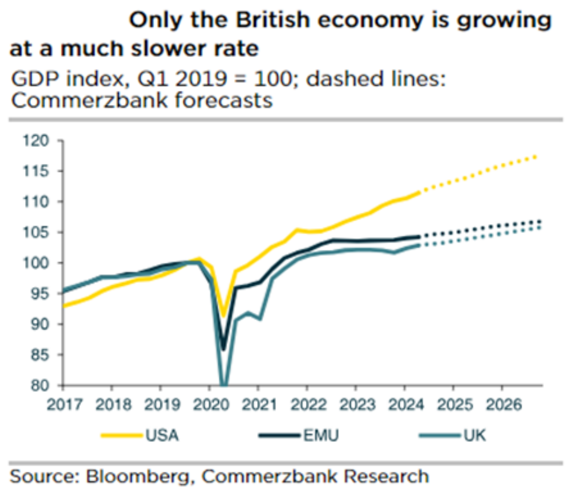
European government bond yields were little changed this morning, with the yield curve only marginally steepening as the two-year Bund yields were at 2.28% and the 10y Bund at 2.62% (+2bp). Southern spreads marginally narrowed this morning as the French-German 10y sovereign spread moved to 83 bps (-2bps) and the Italian BTP-Bund 10y spread declined to 118bps (-2bps).



United Kingdom

The pound sterling continued to decline against the dollar this morning (-0.2%) to $1.2176/£, and gilt yields were little changed, with the two-year yield at 4.58%, the 10-year yield at 4.88% (+31bps YTD) and the 30-year yield at 5.43%. In the UK, Prime Minister Keir Starmer affirmed his "full confidence" in Chancellor Rachel Reeves despite rising borrowing costs and market volatility, which threaten fiscal margins, prompting calls for a plan to stabilize public finances. The UK's Debt Management Agency sold £1bn ($1.22bn) of bonds due in November 2054; the real yield at the auction came in at 2.126% with a bid-to-cover ratio 3.06.



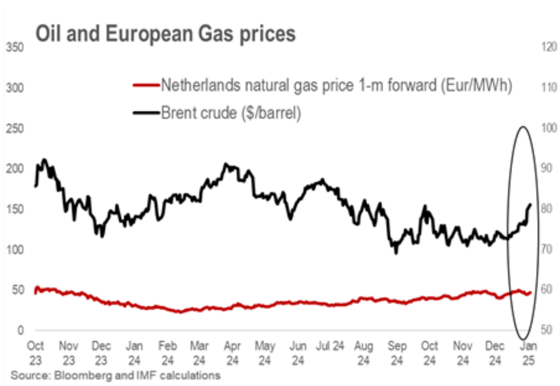


Japan

Japanese government bond (JGB) yields rose across all tenors, with the 40-year yield rising 3 bps to 2.76%, its highest level since its debut in 2007, amid a global bond selloff and rising expectations of a Bank of Japan (BOJ) rate hike in January. With US Treasury long-end yields rising, Mizuho strategists see further room for Japanese bond yields to increase. Nomura analysts note a notable underperformance of 5-year to 10-year tenors, with the 2y3y forward JGB yield standing at 0.95%. They view this as a possible signal that domestic market participants are raising their terminal rate expectations to 1.00% from 0.75%, fueled by upbeat US economic performance, rising interest rates in the US and EU, and an uptick in recent Tokyo inflation data. In today's speech, BOJ Deputy Governor Ryozo Himino signaled that a rate hike could occur at the BOJ meeting next week, highlighting momentum for this year's wage hikes and US economic policy under a new administration warrant. The Nikkei 225 posted the largest single day loss since November (-1.8%), with chip stocks underperforming, following US new restrictions on semiconductor sales.

Commodity Markets

Oil prices hit a six month high after the US imposed further sanctions on Russia targeting its oil tanker fleet. The new sanctions could force India and China to seek alternative supplies, according to Reuters. Citi estimates that 30% of Russia's so-called shadow fleet of tankers could be affected, potentially reducing Russian oil supply by almost 800K barrels/day. Goldman thinks Russia will try to counter the sanctions by selling its oil even more cheaply. Oil prices were on the rise even before the sanctions due to colder winter weather and expectations that the new administration will increase curbs on Iranian oil. European gas markets are also facing pressure due to lower supplies, cold weather and uncertainty about Russia's supply. Some gas contracts are linked to oil prices, and some of the LNG Russian plants producing liquified natural gas (LNG) were also impacted by the US sanctions.



Emerging Markets

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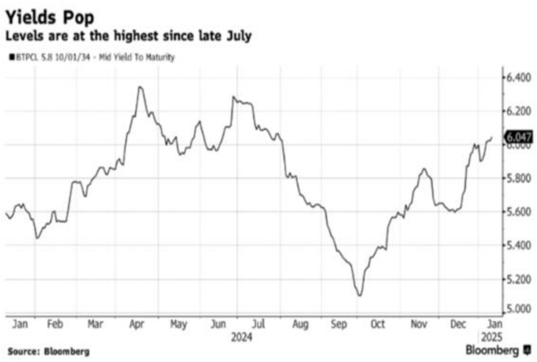
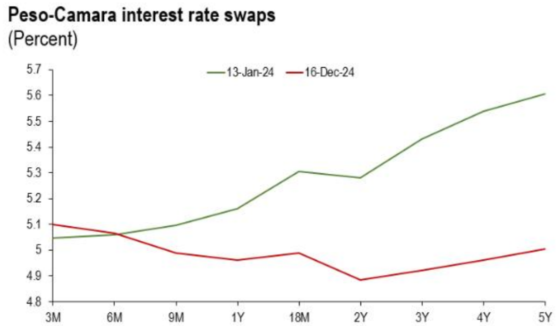
EMEA equities were mostly trading higher, while currencies were mixed and local currency bond yields were mostly lower. Equities in Egypt (+1.9%) were outperforming while equities in Nigeria (-1.4%) were trading in the red. **Most Asian currencies appreciated**, as the US dollar weakened following the news that the US is considering a graduated tariff increase to avoid an inflation spike. The Korean won (+0.3%) led the appreciation, as Korea's National Pension Service reportedly has started strategic currency hedging and selling dollars. **Performance of Asian equities was mixed** (EM Asia: +1.8%) with Chinese equities outperforming (CSI 300: +2.6%), buoyed by the US new tariff plan. **Latin American markets saw some gains on higher oil prices.** Among the major currencies, the Colombian peso gained the most (+0.9%), while other were up 0.2-0.5%. Regional equities closed the day marginally higher.

Chile

Yields rose to their highest levels since July as markets continue to pare back policy easing expectations. The central bank of Chile had tuned hawkish while delivering a 25bps rate cut after its last meeting in mid-Dec, citing rising inflationary pressures, and a depreciating currency. Since then, the outlook has become even more unfavorable. The one-year breakeven rate has climbed about 100bps since mid-December, while the Chilean peso has depreciated another 1.6% and is trading around historically low levels. Some street analysts think that the upcoming data on economic activity, inflation and currency depreciation could even call for a tightening in monetary policy, particularly in the light of the recent upward adjustment in the US Fed policy path. The swap curve has shifted higher across tenors, with one-year rates rising 20bps since mid-Dec.

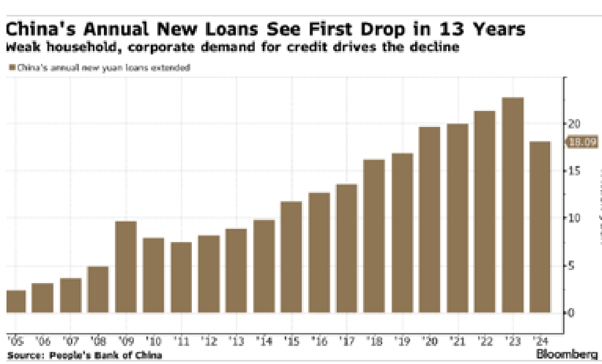


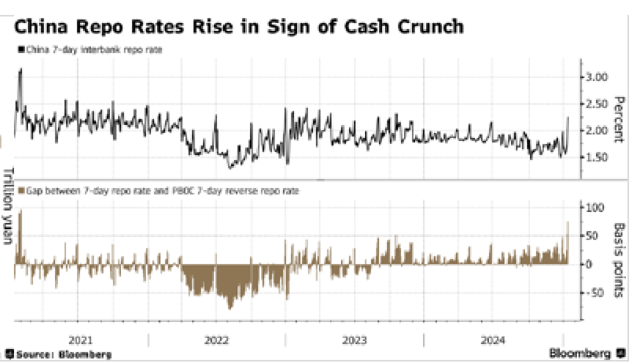


China

China's new yuan loan issuance experienced the first annual decline in 13 years (2024: RMB 18.09 tn or US$2.5 tn; 2023: RMB 22.75 tn), driven by declines in both household and corporate loans, underscoring weak private sector credit demand amid lingering deflation and a protracted housing slump. Today, **Chinese equities staged a major rally** (CSI 300: +2.6%) following the news that the US is considering a gradual approach in rolling out additional tariffs. The RMB was little changed.

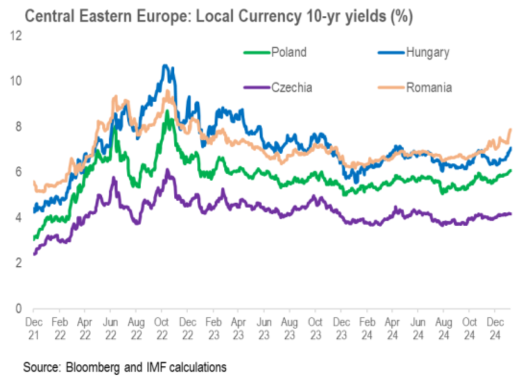
Liquidity conditions in the Chinese interbank market tightened notably, with the 7-day pledged repo rate widening the spread with the open market 7-day reverse repo rate to over 70 bps on Tuesday morning, the largest since February 2021. While this reflects the People's Bank of China's (PBOC) cash injection falling short of meeting seasonal cash demand ahead of the Chinese New Year holiday, Bloomberg analysts believe that Chinese authorities' efforts to support the RMB against the USD and curb the bond market rally by suspending government bond purchases further exacerbated the liquidity squeeze. Some analysts anticipate a potential reserve requirement ratio (RRR) cut before the holidays, while believing that rate cuts might be delayed in the short term given policymakers' emphasis on stabilizing the RMB.

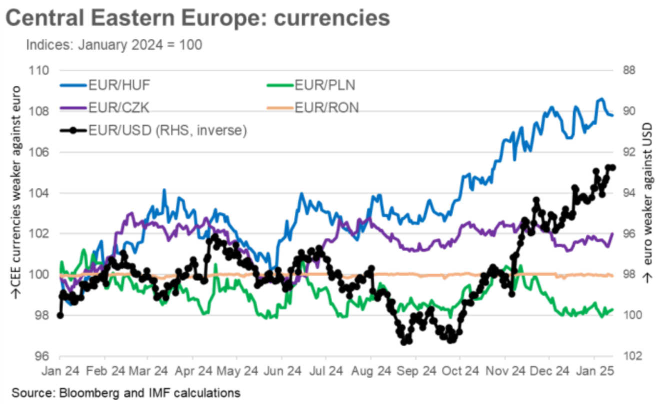




Hungary

Hungary's 10-year local currency bond yield increased following an upside surprise in inflation. Data released this morning showed Hungary's headline inflation increasing more than expected in December (+4.6%y/y versus expected 4.3% from 3.7% in November), with Bloomberg analysts noting that a weaker forint is likely fueling price increases. Following the release, Hungary's 10-year local currency bond yield increased by 8bps to around 7.1%, the highest level since April 2024, while the forint was marginally stronger against the euro (+0.2% to 412/€). Nevertheless, the forint has weakened by 4% versus the euro since September 2024, and reached a two-year low of 416 against the euro earlier this year. Looking ahead, analysts think the pressure on the forint will continue and forecast that the currency would reach 420 against the euro in Q1 2025.





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Global Financial Indicators

1/14/25 8:02 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5,846	0.2	-2.2	-3.4	22.2	-1
Europe		4,998	0.9	-0.3	0.6	11.6	2
Japan		38,474	-1.8	-2.1	-2.5	7.2	-4
China		3,821	2.6	0.6	-2.9	16.4	-3
Asia Ex Japan		70	-0.9	-4.3	-7.7	7.8	-4
Emerging Markets		41	-0.7	-3.2	-7.3	4.1	-2
Interest Rates					basis points		
US 10y Yield		4.8	0	10	39	84	21
Germany 10y Yield		2.6	1	14	37	44	26
Japan 10y Yield		1.2	4	11	21	64	15
UK 10y Yield		4.9	-1	20	47	109	31
Credit Spreads					basis points		
US Investment Grade		121	1	1	4	-11	1
US High Yield		315	4	10	9	-82	-13
Exchange Rates					%		
USD/Majors		109.6	-0.3	1.0	2.5	7.1	1
EUR/USD		1.02	0.0	-0.9	-2.5	-6.4	-1
USD/JPY		157.7	0.1	-0.2	2.3	8.2	0
EM/USD		42.9	0.0	-0.1	-1.8	-10.4	0
Commodities					%		
Brent Crude Oil ($/barrel)		80.7	-0.4	4.7	8.9	7.6	8
Industrials Metals (index)		144.0	-0.1	2.2	-0.8	5.9	3
Agriculture (index)		58.1	-0.6	2.5	2.4	-3.7	2
Implied Volatility					%		
VIX Index (%, change in pp)		19.0	-0.2	2.9	5.2	6.3	1.6
Global FX Volatility		9.3	0.0	0.6	0.7	1.7	0.1
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		83	-3	5	1	-23	-2
Italy		119	-2	4	5	-36	3
France		83	-2	1	4	33	0
Spain		68	-2	1	1	-23	-2

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

Emerging Market Financial Indicators

Last updated: 1/14/2025 8:04 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		7.33	0.0	0.0	-0.6	-2.2	-0.4		1.7	2	8	-6	-88	1
Indonesia		16270	0.1	-0.8	-1.6	-4.4	-0.8		7.2	7	16	19	54	17
India		87	-0.1	-1.1	-2.0	-4.3	-1.2		7.4	-1	9	27	21	4
Philippines		59	0.2	-0.8	0.1	-4.8	-1.1		5.1	-1	16	10	-59	20
Thailand		35	-0.3	-0.6	-2.0	0.6	-1.2		2.4	4	4	7	-34	9
Malaysia		4.51	0.1	-0.4	-1.2	3.6	-0.8		3.8	-1	1	2	2	2
Argentina		1041	-0.1	-0.5	-1.9	-21.4	-0.9		24.5	-81	-163	-431	-5665	-463
Brazil		6.08	0.3	0.3	0.9	-20.0	1.5		15.4	-5	17	62	532	-49
Chile		1006	0.1	-0.2	-1.5	-9.4	-1.0		5.9	5	18	52	48	20
Colombia		4307	0.0	0.8	0.4	-9.3	2.3		11.7	16	-4	51	209	-14
Mexico		20.64	0.0	-1.5	-2.4	-18.2	0.9		10.3	7	1	20	120	-3
Peru		3.8	-0.3	-0.5	-1.4	-2.3	-0.6		6.7	1	2	14	21	9
Uruguay		44	0.0	-0.6	0.9	-10.9	-0.7		9.7	2	1	9	48	4
Hungary		402	0.3	0.0	-3.3	-13.9	-1.1		6.8	10	20	62	121	34
Poland		4.16	0.1	-1.0	-2.7	-4.2	-0.8		5.7	5	11	25	84	15
Romania		4.9	0.0	-0.9	-2.5	-6.4	-1.0		7.8	19	57	76	157	52
Russia		103.0	-0.1	4.3	0.7	-14.7	10.2							
South Africa		18.9	0.5	-1.3	-5.7	-1.4	-0.5		10.8	6	39	48	-41	33
Türkiye		35.49	0.0	-0.5	-1.5	-15.2	-0.4		28.8	11	-41	-198	151	-90
US (DXY; 5y UST)		110	-0.3	1.0	2.5	7.1	1.1		4.60	0	13	35	77	22

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	7 Days	30 Days	12 M	YTD
								basis points					
China		3,821	2.6	0.6	-2.9	16.4	-2.9		90	-6	-8	-74	-6
Indonesia		6,957	-0.9	-1.8	-5.0	-3.7	-1.7		91	-7	3	-22	0
India		76,500	0.2	-2.2	-6.9	4.3	-2.1		79	-13	-2	-49	-7
Philippines		6,300	-0.7	-3.8	-4.8	-5.7	-3.5		83	-7	6	-12	4
Thailand		1,340	-1.0	-3.6	-6.4	-4.7	-4.3						
Malaysia		1,576	-0.6	-3.3	-2.0	5.0	-4.0		72	-3	2	-22	2
Argentina		2,655,179	-5.3	-5.2	12.0	157.0	4.8		583	12	-124	-1327	-54
Brazil		119,007	0.1	-1.8	-4.5	-9.1	-1.1		235	2	17	26	-12
Chile		6,776	-0.9	-0.4	0.1	13.5	1.0		118	4	8	-15	5
Colombia		1,407	0.1	-0.9	1.9	9.0	2.0		322	3	16	28	-4
Mexico		49,830	0.5	0.7	-3.5	-10.4	0.6		312	12	12	-23	0
Peru		29,258	0.1	-0.6	-1.7	12.2	1.0		141	1	7	-11	0
Hungary		82,925	0.4	2.8	3.4	30.3	4.5		157	-3	17	-9	2
Poland		81,655	0.8	-0.7	0.0	7.3	2.6		111	-6	10	6	-1
Romania		16,983	0.0	-0.3	-2.6	7.6	1.6		251	12	44	43	16
South Africa		82,529	0.6	-1.9	-5.3	11.2	-1.9		292	3	14	-41	-1
Türkiye		9,717	-0.2	-2.6	-4.0	21.7	-1.2		257	-3	8	-87	-2
EM total		41	1.1	-3.2	-7.3	4.1	-2.4		361	5	6	2	-3

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

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