



- Geopolitical shock collided with investor optimism and complacency about risks ([link](#))
- Japanese government bond yields partially retraced yesterday's huge move higher ([link](#))
- European equities continued to trade lower this morning amid trade fears ([link](#))
- South African inflation ticked higher, though markets are still pricing in a rate cut ([link](#))
- EM international sovereign issuance is off to a record start in 2026, with over \$50 bn ([link](#))

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Markets stabilize, with global bond yields partially retracing yesterday's sell-off.

Market sentiment tentatively stabilized, with most global bond yields declining, though equities remained mixed this morning. 30y Japanese government bond yields fell nearly 15 bps, erasing about half of yesterday's move. Treasury yields also edged slightly lower, with the 10y Treasury yield trading just below 4.3%. European equities extended losses for a third consecutive session this week, while US equity futures were flat. Japanese equities declined modestly. Despite investor expectations of negotiations between the Trump Administration and European leaders, gold prices continued to climb, reflecting lingering fears about the broader market and geopolitical backdrop. Broader measures of market volatility also remained somewhat elevated. The dollar was little changed today after declining sharply yesterday. However, the Indian rupee fell 0.8% to a record low, making it one of the worst performers YTD among major currencies.

Key Global Financial Indicators

Last updated: 1/21/26 8:04 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
S&P 500		6797	-2.1	-3	-1	12	-1
Eurostoxx 50		5833	-1.0	-3	1	13	1
Nikkei 225		52775	-0.4	-3	5	33	5
MSCI EM		57	-1.0	-1	7	35	5
Yields and Spreads							
US 10y Yield		4.28	-1.4	15	13	-30	11
Germany 10y Yield		2.87	1.1	6	-3	36	2
EMBIG Sovereign Spread		250	3	-2	-6	-71	-3
FX / Commodities / Volatility							
EM FX vs. USD, (+) = appreciation		47.0	0.2	0	2	8	1
Dollar index, (+) = \$ appreciation		98.5	-0.2	-1	0	-9	0
Brent Crude Oil (\$/barrel)		65.0	0.0	-2	7	-18	7
VIX Index (% change in pp)		20.7	0.7	5	6	6	6

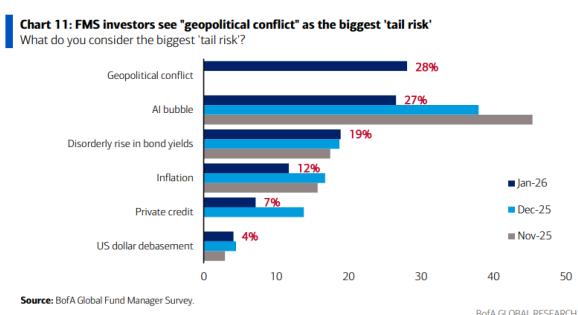
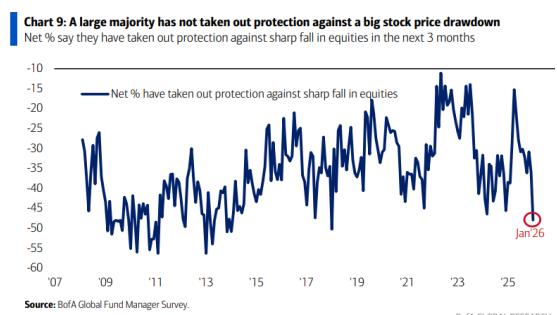
Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

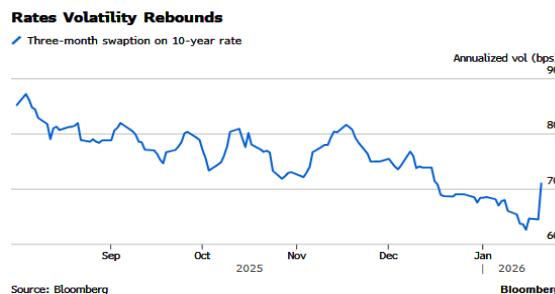
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United States

Geopolitical and trade tensions collided with an optimistic investor outlook and limited hedging for downside risk. On Tuesday, the S&P500 declined 2% and erased its YTD gains. The shock hit at time when investor optimism was at very elevated levels. The latest Bank of America Fund Manager Survey (across \$575 bn of AUM) showed that investor positioning had reached “hyper-bull” territory, with fund managers at their most optimistic since 2021, cash holdings at record lows, and equity overweights at a one-year high. Hedging against equity downside had dropped to an eight-year low, leaving nearly half of respondents without protection just as geopolitical risks intensified. With geopolitical conflict seen as the biggest tail risk, the survey underscores how vulnerable markets are to adverse shocks.



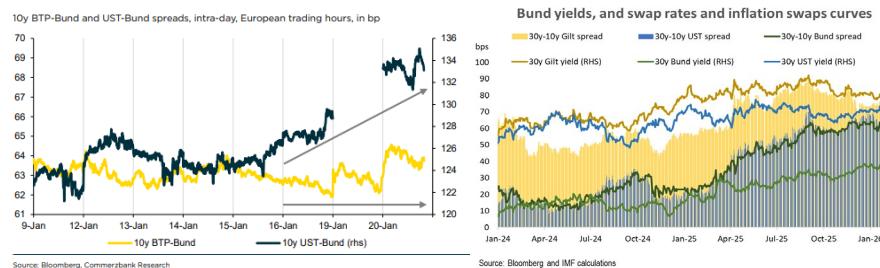
Markets reprice geopolitical risk as volatility rebounds. Market volatility had been subdued in recent months, but the recent geopolitical shock caused many analysts to highlight the tail risk that foreign buyers could pull back from US assets. That reassessment lifted volatility across markets, with the VIX, JPMorgan FX volatility index, and interest rate volatility (measured by swaptions) all jumping higher. Some investors argue that volatility in interest rate and bond markets remains too low relative to fundamentals, pointing to investor complacency and the potential for further repricing. Others view the spike as geopolitical noise, expecting political compromises to prevail on both ends, in line with the “TACO” trade mentality. Either way, market sources report a pick-up in hedging demand, with fresh options flows targeting higher Treasury yields and more traders positioning for additional turbulence, while investors also keep a close eye on carry-trade strategies that rely on low volatility.



Euro area

European equities continued to trade lower this morning amid still elevated trade fears. The Stoxx 600 index declined by as much as 0.6%, with losses across most sectors and banks underperforming (-1%). All major country indices were lower, with Italy lagging at -0.8%. The euro was little changed (-0.1%) against the dollar. ECB President Lagard stated that the announced tariffs would have a “minimal impact,” although “probably to the upside,” on Eurozone’s inflation in the near term. Preliminary estimates from Bloomberg suggested that additional 10% tariffs on the targeted European economies (Denmark, Norway, Sweden, France, Germany, the Netherlands and Finland) would lower their exports to the US by about

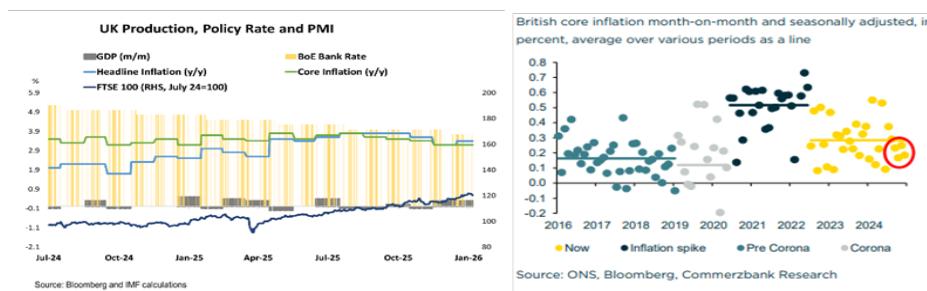
40%–50% (with most severe impacts on pharmaceuticals) and put around 0.7% of EU GDP at risk. Increasing the tariffs to 25% would put at risk up to 1% of the European GDP, opening the door to potential further rate cuts from the ECB.



European government bonds (EGBs) were little changed this morning after yesterday's selloff. The bund yield curve steepened slightly. 10y BTP-Bund spreads rose 1 bp to 65 bps while the OAT-Bund spread was little changed at 67 bps. Commerzbank analysts noted that bond markets remain uneasy, missing the typical flight-to-quality pattern. Nevertheless, they also highlighted that **Southern spreads largely withstood yesterday's sell-off, with evidence of solid demand in the primary market as well.** Spain's new 10y bond syndication attracted a record €148 bn of orders. Germany auctioned €776 mn of 15y Bunds at a yield of 3.23% and a bid-to cover ratio of 2.6 times (vs 1.1 in previous auction on same bonds), and €786 mn of 30y Bunds at a yield of 3.49% and a bid-to cover ratio of 2.4 times (vs 2.1 in previous auction).

United Kingdom

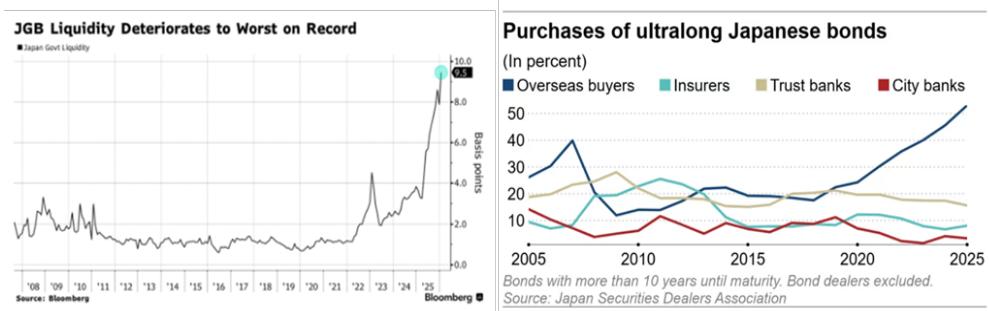
Headline inflation (CPI) accelerated to 3.4% (vs 3.3% expected, 3.2% prior) in December. Core inflation was unchanged at 3.2%. Services inflation inched up to 4.5% y/y (vs. 4.6% expected, 4.4% prior), while retail prices rose 4.2% y/y (vs 4.1% expected, 3.8% prior). The pound sterling (-0.2%) and UK equities (-0.1%) were modestly lower, while gilts rallied and yields fell about 2 bps across the curve. Commerzbank sees the sterling weakening in the medium term as cyclical domestic factors increase market confidence that the Bank of England (BOE) will cut rates soon. Deutsche Bank sees the pound moderately overvalued vs the dollar on fundamentals, implying limited upside for the sterling unless UK rates remain higher for longer. JP Morgan highlighted the mixed inflation picture, with goods inflation surprising on the upside while service prices momentum has slowed. They expect larger disinflation in January (CPI at 2.9% y/y). They also believe the BOE will cut rates in March, though still elevated pay growth will keep the BOE cautious. UBS has a more dovish view, expecting the BoE to cut in March and again in the summer to a terminal rate of 3.25%, with downside risks to the pound if disinflation occurs faster than expected.



Japan

Long-term Japanese government yields eased (30y: -15 bps to 3.71%; 40y: -17 bps to 4.04%) after Finance Minister Katayama's verbal intervention. Many analysts cautioned that despite the rebound, the outlook remains precarious amid ongoing fiscal uncertainty. Bloomberg reported that life insurers

remain wary of increasing their JGB allocation given large price swings in recent months, while some portfolio managers also flagged rapid portfolio rebalancing between different fixed income assets. Citi warned that heightened JGB volatility could spill over globally, potentially triggering up to \$130 bn of US bond sales by risk parity funds. Analysts noted that as Japanese yields have become more attractive, foreign investors have accounted for more than half of ultralong JGB purchases, but their presence can amplify volatility as they are more sensitive to policy risks. Bloomberg also highlighted the recent deterioration in JGB liquidity at the long end, exacerbated by reduced BOJ buying. Some market participants have flagged the possibility of direct BOJ intervention, though such a move would be a last resort to avoid any increased perception of fiscal dominance. Otherwise, the yen appreciated slightly while domestic equities edged lower (-0.4%), led by financial stocks.



Emerging Markets

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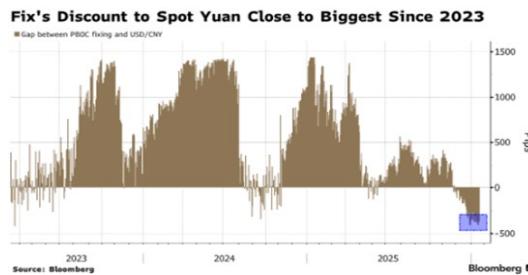
EMEA markets were mixed today. Czech stocks outperformed, while in Türkiye, the benchmark index fell 1.3% after reaching a record high yesterday. The Turkish central bank is expected to cut rates 150 bps tomorrow. CEE currencies weakened marginally vs both the euro and the dollar, while the South African rand outperformed, strengthening 0.4%.

Asian equity markets were mixed, with Thailand outperforming (+1.6%) while Indonesian stocks posted losses (-1.4%). Most regional currencies strengthened against the dollar, but the Indian rupee weakened -0.8% to a record low (91.7/\$) amid continued equity outflows. The RBI has limited its intervention in recent weeks. Bank Indonesia kept its policy rate unchanged at 4.75%, as expected, and the governor reiterated that BI stands ready to maintain rupiah stability through large-scale FX interventions if needed.

On Tuesday, Latin American markets mostly outperformed despite the risk-off sentiment globally. Equity markets gained in Mexico (+0.3%), Brazil (+0.9%), Colombia (+1.0%), and Peru (+2.5%). Regional currencies were mixed, though the Mexican and Chilean pesos appreciated modestly.

China

The yuan was little changed after the PBOC set the RMB fixing at 7.0014/\$, weaker than estimates (6.9601) and near the deepest discount to the onshore spot rate since 2023. ANZ viewed the move as signaling policymakers' desire to prevent rapid appreciation as the yuan enters a seasonally strong period. The yuan has appreciated +1.1% against the dollar over the past month, outperforming most regional peers. Equities gained onshore (CSI 300: +0.1%) and offshore (HSCEI: +0.3%). Elsewhere, most holders of the China Vanke 2028 note exercised their put option early. According to the Shenzhen Stock Exchange filing, these creditors



approved a revised extension plan allowing Vanke to repay 40% now and defer the remainder until January of next year, giving the developer temporary relief as it faces \$50 bn in interest-bearing liabilities amid a prolonged property slump (home prices continued to fall in December). The government has asked Vanke to prepare a comprehensive restructuring plan, potentially involving deep creditor haircuts. Vanke's Hong Kong-listed shares rose +5.75%, though its offshore dollar bonds remained deeply distressed at around 23 cents on the dollar.

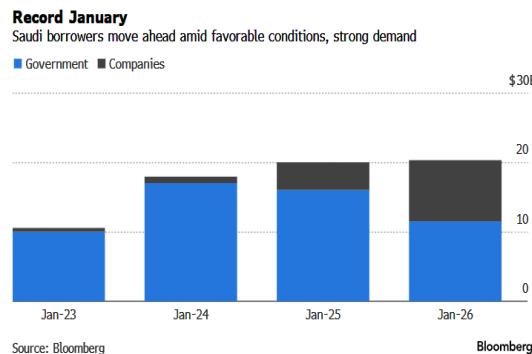
EM Issuance

Emerging market international bond issuance is off to a record start in 2026, with over \$50 bn in sovereign issuance amid multiyear lows in spreads. The benchmark JPM EMBI sovereign spread has tightened to around 250 bps, the lowest since 2013, amid renewed inflows, improving fundamentals, and the risk on sentiment globally. January is typically the busiest month of the year, though the environment has been especially favorable for issuers. About half of the YTD issuance came from Mexico and Saudi Arabia, though 10 sovereigns have priced new bonds. Among frontier markets, Ecuador and Benin have been in discussions about new issuance, though its unclear if recent bond market turbulence could delay such plans. Nevertheless, the Philippines was able to push through \$2.75 bn in new dollar bonds on Tuesday, with spreads coming in tighter than initially expected.



Saudi Arabia

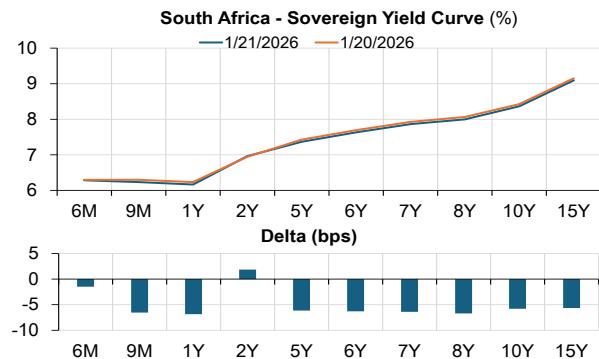
Saudi corporates and banks have issued international bonds at a record pace in January. S&P Global expects banks' external debt issuance to remain elevated given strong credit growth linked to Vision 2030. S&P noted that deposit growth is insufficient to fully support lending and that banks will increasingly rely on external borrowing. However, Bloomberg reported early signs of a pullback in bank lending, the first in several years, as tighter system liquidity and new regulatory requirements constrain balance-sheet expansion. Relatedly, Bloomberg data shows that Saudi Arabia's quasi-government net supply reached USD 23.5bn in 2025, exceeding sovereign net supply for the second consecutive year. This pattern is expected to persist in 2026. BondRadar lists a forthcoming USD benchmark 10-year sukuk by the Public Investment Fund, consistent with expectations of continued elevated quasi-government issuance.



South Africa

Despite a modest uptick in December CPI inflation, markets are pricing in a rate cut for next week.

Headline CPI rose to 3.6% y/y in December, in line with expectations and slightly up from 3.5% in November, remaining within the recently revised inflation target. In November 2025, South Africa's inflation framework was changed from a 3–6% range, in place since 2000, to a 3% target with a ± 1 percentage point tolerance band. Rates markets responded with the 3m OIS rate falling 3 bps to 6.53%. The 10y government bond yield declined 7 bps to 8.38%, while the rand strengthened by 0.4% against the US dollar. Analysts broadly expect the South African Reserve Bank to cut the policy rate by 25 bps next week to 6.5%.



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Global Financial Indicators

1/21/26 8:05 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
% 							
Equities							
United States	6,792	-2.1 	-2.5	-0.6	12.3	-1	
Europe	5,834	-1.0	-2.8	1.3	12.9	1	
Japan	52,775	-0.4	-2.9	4.7	33.1	5	
China	4,723	0.1	-0.4	2.4	24.4	2	
Asia Ex Japan	98	-1.2	-1.4	6.8	34.5	5	
Emerging Markets	57	-1.0	-1.1	6.7	34.7	5	
Interest Rates			basis points				
US 10y Yield	4.3	-2	14	13	-30	11	
Germany 10y Yield	2.9	1	6	-3	36	1	
Japan 10y Yield	2.3	-7 	10	26 	109	22	
UK 10y Yield	4.5	-1	11	-7	-14	-3	
Credit Spreads			basis points				
US Investment Grade	106	0	1	-6	-10	-1	
US High Yield	321	1	-2	-21	25	-15	
Exchange Rates			%				
USD/Majors	98.4	-0.2	-0.7	-0.2	-8.9	0	
EUR/USD	1.17	0.1	0.8	-0.2	12.5 	0	
USD/JPY	157.8	-0.2	-0.4	0.5	1.4	1	
EM/USD	47.0	0.2	0.4	1.5	8.5 	1	
Commodities			%				
Brent Crude Oil (\$/barrel)	65.0	0.1	-2.3	8.2	-10.5	7	
Industrials Metals (index)	169.6	0.9	-1.5	7.5	16.3	4	
Agriculture (index)	53.3	0.5	0.1	-0.4	-9.6	0	
Gold (\$/ounce)	4863.9	2.1 	5.1 	9.5	77.2	13	
Bitcoin (\$/coin)	88857.1	-0.6 	-6.9 	0.8	-16.8	1	
Implied Volatility			%				
VIX Index (%), change in pp	20.6	0.5	4.6	5.7	5.6	5.7	
Global FX Volatility	7.0	0.0	0.2	0.4	-1.5	0.0	
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece	64	1 	12 	7	-22	5	
Italy	65	1	2	-4	-43	-4	
France	67	0	-1	-5	-10	-4	
Spain	40	0	0	-3	-24	-4	

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

Emerging Market Financial Indicators

	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	4,723	0.1	-0.4	2.4	24.4	2.0	72	-3	-5	-22	-22	-3		
Indonesia	9,010	-1.4	0.7	4.2	24.2	4.2	90	0	3	-3	-3	4		
India	81,910	-0.3	-2.1	-4.3	7.2	-3.9	93	9	0	7	7	3		
Philippines	6,330	-0.4	-0.9	4.8	-0.3	4.6	77	-3	2	-8	-8	2		
Thailand	1,318	1.6	5.9	3.8	-3.2	4.6								
Malaysia	1,706	0.4	-0.3	2.1	7.4	1.5	60	-1	2	-11	-11	1		
Argentina	2,942,092	1.0	-0.3	-6.3	12.3	-3.6	576	-9	-5	-67	-67	7		
Brazil	166,277	0.9	0.7	4.9	34.8	3.2	195	-9	-10	-29	-29	-8		
Chile	11,231	0.1	0.1	9.0	59.6	7.2	89	-7	-3	-28	-28	-2		
Colombia	2,402	1.0	6.2	17.2	72.5	16.2	261	-15	-16	-50	-50	-16		
Mexico	67,683	0.3	2.0	5.8	34.2	5.2	217	-8	1	-93	-93	0		
Peru	3,193	3.4	6.5	23.0	80.2	23.6	105	-5	2	-33	-33	-4		
Hungary	120,272	-0.8	-0.3	8.9	41.4	8.3	136	-7	-4	-19	-19	-3		
Poland	119,660	-1.1	-1.4	3.6	41.7	2.1	87	-6	-4	-26	-26	-4		
Romania	26,243	-1.4	-1.7	10.0	55.0	7.4	173	-10	-6	-75	-75	-3		
South Africa	120,882	0.3	0.0	5.3	42.5	4.4	230	1	9	-66	-66	12		
Türkiye	12,612	-1.5	2.0	11.2	26.1	12.0	245	0	6	-28	-28	11		
EM total	57	0.3	-1.1	6.7	34.7	4.8	264	-3	-7	-97	-97	-7		

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

1/21/2026 8:09 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														
China	6.96	0.0	0.1	1.1	4.3	0.4	1.9	-2	-3	1	21	-2		
Indonesia	16935	0.1	-0.4	-0.9	-3.5	-1.4	6.2	3	9	9	-91	14		
India	92	-0.8	-1.5	-2.2	-5.6	-2.0	7.3	-4	1	-11	11	19		
Philippines	59	0.3	0.3	-0.9	-1.3	-0.8	4.8	7	11	14	-29	12		
Thailand	31	0.0	1.1	0.3	9.7	1.4	2.0	7	6	19	-48	23		
Malaysia	4.05	0.2	0.0	0.7	10.6	0.3	3.6	0	3	2	-24	7		
Argentina	1434	0.0	1.3	1.2	-27.1	1.2	34.6	52	75	383	926	223		
Brazil	5.35	0.5	0.8	4.6	12.7	2.4	13.6	8	27	0	-161	8		
Chile	882	0.4	0.1	3.1	13.8	2.1	5.2	1	1	-7	-56	-8		
Colombia	3652	0.5	0.8	3.6	17.9	3.4	12.1	-2	-44	-29	57	-73		
Mexico	17.48	0.7	1.8	2.9	18.0	3.0	9.0	9	18	9	-119	6		
Peru	3.4	0.0	0.0	0.3	11.3	0.1	5.9	0	1	10	-71	16		
Uruguay	38	0.4	1.2	2.3	14.6	2.0	7.3	-2	-6	-26	-236	-21		
Hungary	329	0.0	0.9	0.6	20.1	-0.4	6.5	1	7	-6	-17	-8		
Poland	3.60	0.0	0.4	-0.5	13.2	-0.4	4.5	-1	-1	-14	-122	-10		
Romania	4.3	0.1	0.6	-0.4	9.9	-0.2	6.6	1	7	-16	-117	-11		
Russia	77.3	0.8	1.5	1.8	29.0	1.8	8.8	4	10	-2	-179	20		
South Africa	16.3	0.7	0.6	2.4	13.4	1.5	29.9	13	17	-62	183	27		
Türkiye	43.30	0.0	-0.3	-1.2	-17.7	-0.8	3.83	-2	12	14	-56	11		
US (DXY; 5y UST)	98	-0.2	-0.7	-0.2	-8.9	0.1								

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