GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, JANUARY 24, 2025
LEAD EDITOR: SANJAY HAZARIKA

- **The BOJ raises policy rate to the highest in 17 years at 0.50%** (link)
- **Falling Chinese government bond yields are driving investors offshore** (link)
- **European equities reach new records** (link)
- **Investors are optimistic about the US economy** (link)
- **Foreign investors increased exposure to Mexico despite recent uncertainties** (link)
- **Q4 earnings season in US off to strong start** (link)
- **US saw major increase in portfolio flows from abroad** (link)

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Sentiment improves after dovish remarks from US President

President Trump said he favored negotiations with China rather than tariffs, boosting market sentiment. US equity index futures were slightly lower after the S&P 500 set a new record yesterday. However, against all expectations, US markets are lagging European stocks so far this year. The Euro Stoxx 50 index is around 250 basis points ahead of the S&P 500. The broader FTSE Euro First 300 recently hit an all-time high, as did the Stoxx 600 today, and the DAX has broken multiple records already in January. This has surprised some market participants because of the weakness of the European economies and the deep pessimism about their prospects. However, others have pointed out that European equity valuations are so cheap relative to US stocks that a relative rebound is not altogether surprising. Meanwhile, market participants are keeping an eye on China, where falling government bond yields are driving investors offshore.

Key Global Financial Indicators

Last updated: 1/24/25 7:37 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		6119	0.5	3	1	26	4
Eurostoxx 50		5243	0.5	2	8	15	7
Nikkei 225		39932	-0.1	4	-1	12	0
MSCI EM		43	0.2	2	0	10	2
Yields and Spreads				bps			
US 10y Yield		4.64	-0.4	1	5	46	7
Germany 10y Yield		2.58	3.0	5	26	24	21
EMBIG Sovereign Spread		316	0	-7	-14	-87	-9
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		43.8	0.4	2	1	-8	2
Dollar index, (+) = $ appreciation		107.6	-0.4	-1	-1	4	-1
Brent Crude Oil ($/barrel)		78.8	0.6	-3	7	-2	6
VIX Index (%, change in pp)		15.0	-0.1	-2	1	2	-2

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

Mature Markets

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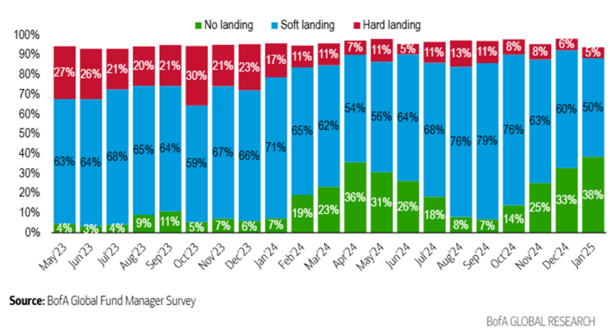
United States

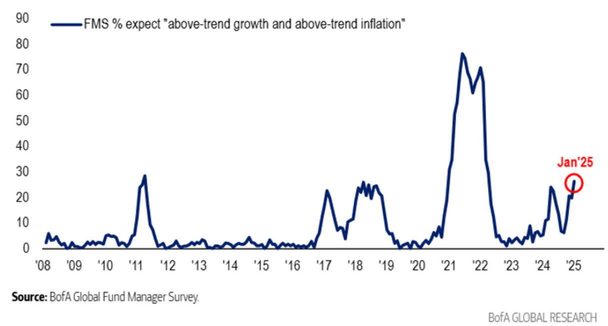
The latest Bank of America survey of global fund managers finds that investors are optimistic about the US economy. As many as 88% of those surveyed expect either a soft landing or “no landing,” with the latter implying continued robust growth in US GDP. Investors are also optimistic on a global basis, with the proportion of investors expecting a global boom at the highest level since April 2022. Some contacts pointed out that soon after April 2022, global markets were hit by a major selloff that became a painful bear market for both stocks and bonds. Others noted that the bear market was triggered by aggressive Fed rate hikes, which are highly unlikely to occur in 2025. On a more cautious note, investors are worried about the risk of renewed inflation and a rise in global interest rates caused by potential tariff wars or other possible global disruptions.

Chart 6: 50% say "soft landing," 38% "no landing," 5% "hard landing"
What is the most likely outcome for the global economy in the next 12 months?



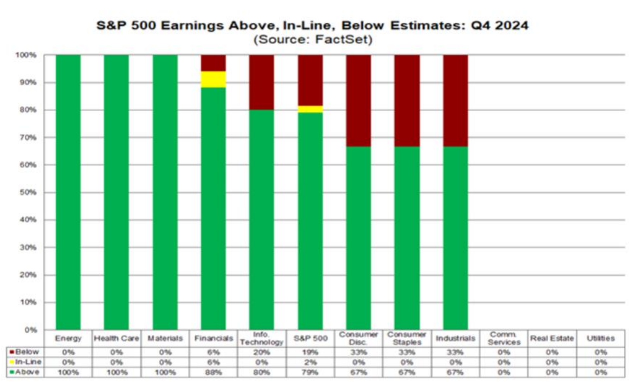
Source: BofA Global Fund Manager Survey
BofA GLOBAL RESEARCH

Chart 7: Expectations for global economic "boom" highest since Apr'22
Expectations for the global economy next 12m: % say "above-trend growth and above-trend inflation"



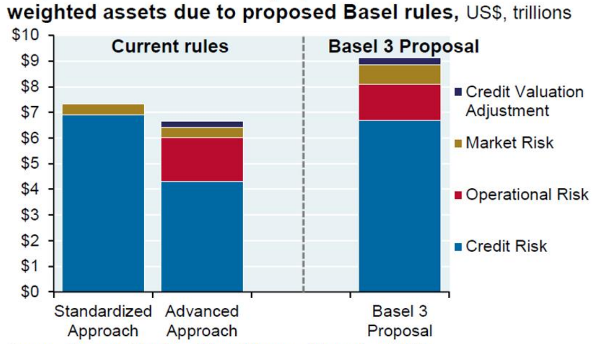
Source: BofA Global Fund Manager Survey.
BofA GLOBAL RESEARCH

The Q4 US earnings season is off to a strong start, boosting sentiment. The number of companies in the S&P 500 reporting positive earnings surprises is higher than usual, and the positive surprises are also much higher than recent history. In addition, Q4 has seen the fastest pace of year-on-year earnings growth in three years. Of the companies who have reported, 79% have beaten forecasts, compared to the 10-year average of 75%. They are beating forecasts by 9.1% on average, compared to the 10-year average of 6.7%. The US equity markets have responded well, with both the S&P 500 and the Nasdaq within striking distance of new all-time highs. The financial sector stands out with especially strong results, and the shares of the large US banks have soared in recent months. Investors hope that light touch regulation from the Trump administration will enable these banks to grow their profits even further. The Basel 3 reforms being considered by the previous administration are likely off the table.



Source: FactSet

Projected increase in Category I and II US bank risk weighted assets due to proposed Basel rules, US$, trillions



Source: Morgan Stanley, Oliver Wyman, November 2023

The US markets have experienced a surge in portfolio inflows from abroad. Since the global financial crisis (GFC), portfolio inflows to the US have risen to $1.4 tn, according to analysis by Goldman. In contrast, cumulative flows to the euro area and China have dwindled. Investors have been attracted by a stronger US economy and markets that have consistently outperformed all other regions since the GFC. US corporations are more profitable than companies in other countries and have grown their profits at a more rapid pace. Crucially, the US has the world's leading technology companies that are uniquely positioned to take advantage of the latest developments in AI and other advances. Among the world's 10 biggest companies by net income, the only rivals to US companies are the state-owned giants of Saudi Arabia and China.

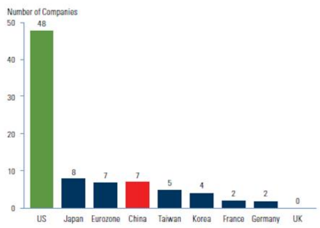
Exhibit 21: Net Portfolio Flows From Abroad
US portfolio inflows have increased to the highest level since the GFC at $1.4 trillion over the past four quarters.

Data through Q3 2024.
Source: Investment Strategy Group, Haver Analytics.

Exhibit 22: Net Foreign Direct Investment Flows From Abroad
Eurozone FDI inflows have been negative, while inflows into China have dropped to nearly zero.

Data through Q3 2024.
Source: Investment Strategy Group, Haver Analytics.

Exhibit 19: Number of Technology Companies With Net Income Exceeding $1 billion
The US has the highest number of large technology companies globally.



Data as of December 2024.
Note: Numbers are based on MSCI ACWI constituents.
Source: Investment Strategy Group, Datastream.

Exhibit 20: Top 10 Companies in MSCI ACWI by Net Income
US companies comprise 7 of the top 10 companies globally based on net income.

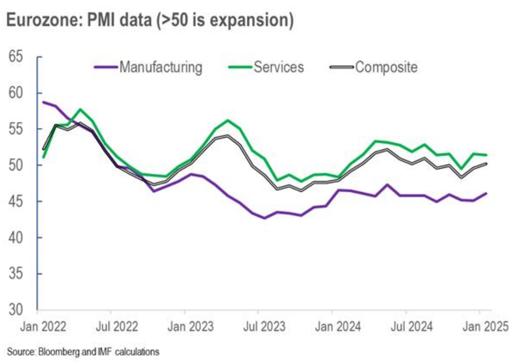
Rank	Company	Country	3-Year Average Net Profit (US$ Billions)
1	Saudi Arabian Oil Co.	Saudi Arabia	129
2	Apple Inc.	US	101
3	Microsoft Corp.	US	82
4	Alphabet Inc.	US	79
5	Industrial and Commercial Bank of China Ltd.	China	52
6	Amazon.com Inc.	US	49
7	China Construction Bank Corp.	China	47
8	JPMorgan Chase & Co.	US	46
9	Exxon Mobil Corp.	US	44
10	Meta Platforms Inc.	US	41

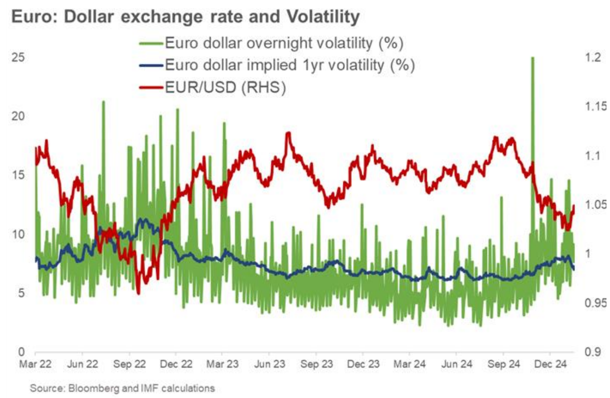
Data as of December 2024.
Note: Net income is measured on adjusted basis to exclude one-off items. The 2024 3-year average is calculated using 2022, 2023 and 2024 calendarized company figures. 2024 net profit is based on Bloomberg consensus.
Source: Investment Strategy Group, Bloomberg, MSCI.

Euro Area

European equities reached record highs with mixed forecasts for the remainder of this year. The Stoxx 600 index reached a record high yesterday and continued to gain this morning and is now roughly 4.8% higher than at the start of the year—outperforming the S&P 500 (+4% YTD). Bloomberg reports a bullish tone on European stock markets as investors have been adding risk recently as they have diversified out of US benchmarks. In contrast, Bloomberg's monthly survey of strategists lowered their year-end forecasts for the Stoxx 600 to around 1% higher than current levels although the range of forecasts varied significantly—with some strategists seeing a 12% upside while others anticipate an 11% decline.

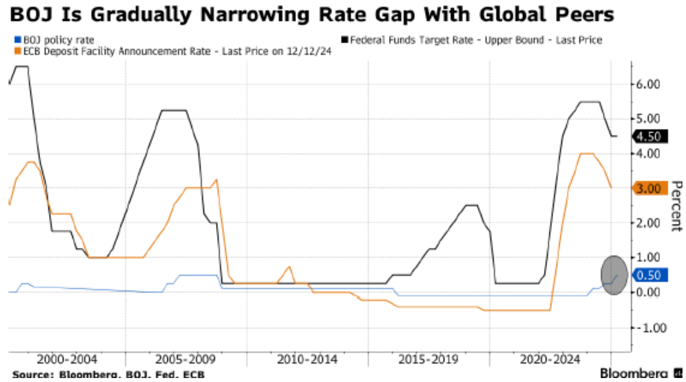
The euro strengthened and markets scaled back ECB rate cut expectations after preliminary January PMI data for the euro area surprised on the upside. HSBC analysts see the improvement in today's data as encouraging and highlight that the uptick in pricing measures—notably in services—reinforced their view that the ECB will continue cutting rates in a gradual manner. They expect the ECB to cut the deposit rate to 2.25% (from the current 3%) by April and then keep rates on hold. In the meantime, while a 25bps rate cut remains closed to fully priced in for the ECB meeting next week, money markets have scaled back ECB easing expectations for 2025 and are now pricing in roughly 89bps of easing by the end of this year, compared to 94bps yesterday. Euro area sovereign bond yields were mostly higher this morning, with the 10-year bund yield (+2bps) trading at around 2.57% and the 2-year bund yield (+4bps) trading at around 2.28%. Amid a broad-based US dollar weakening, the euro was outperforming the majority of G10 currencies, gaining 0.7% against the dollar to 1.0490, now roughly 1.3% stronger that at the start of the year. ING analysts note that the EUR/USD has also been supported by seemingly benign comments US President Trump regarding comments on China.





Japan

In line with expectations, the BOJ raised its key policy rate to 0.50%, the highest level in 17 years. In its policy statement, the policy making committee saw inflation increases gaining traction and substantially raised its inflation expectations for consumer prices to 2.4% this year, compared to 1.9% in its previous estimate. Moreover, BOJ flagged the relative stability of global financial markets before the policy meeting as a favorable driver behind its 25-bps hike. Market participants interpreted the statement as suggesting more rate hikes could be forthcoming this year. In his press conference, Governor Ueda refrained from outlining a terminal rate for the current cycle, though analysts interviewed by Bloomberg interpreted his comments as suggesting rate hikes to at least 1%. The yen gained as much as 0.7% against the dollar to briefly reach 155.01, before settling 0.5% higher on the day (JPY 155.24/USD).



Emerging Markets

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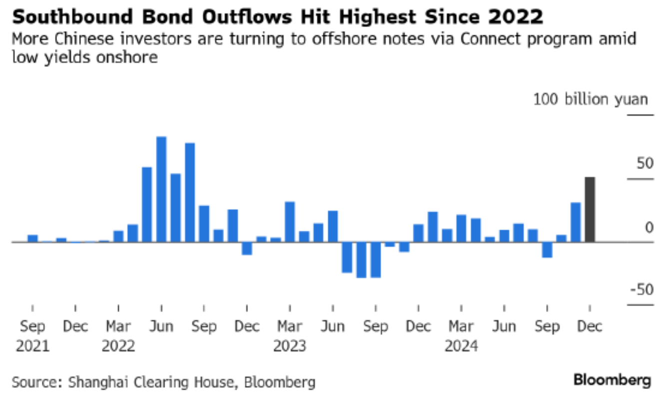
EMEA equities were mostly trading higher, and currencies were mixed. Equities in South Africa (+1.2%) and Poland (+0.7%) were outperforming, whilst those in Türkiye were trading slightly lower. **Asian currencies staged broad-based gains as President Trump continued to soften his tariff stance.** The Monetary Authority of Singapore's loosened its monetary policy settings for the first time in nearly five years on expectations of abating price pressures and slowing growth momentum. **Latin American were mixed as investors assessed potential US policy pathways.** Currencies mostly gained against the US dollar, led by the Colombian peso (+0.8%). Brazil's 10-year yield rose 25 bps to the highest level since early 2016. S&P affirmed Colombia's credit rating at BB+ but with a negative outlook.

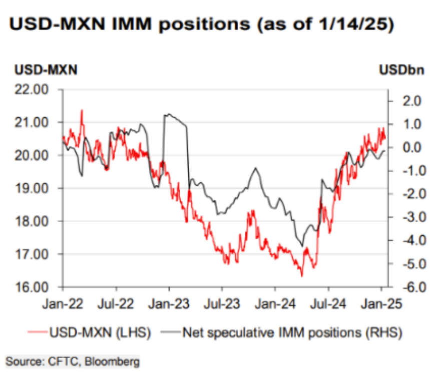
China

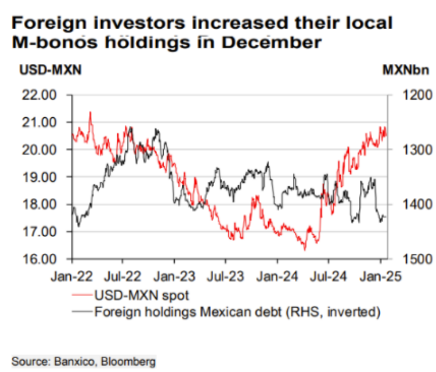
Falling CGB bond yields in China are driving investors offshore. Capital outflows from mainland China via its Southbound Bond Connect program reached its highest level since August 2022. According to Bloomberg estimates, total outflows reached nearly RMB 52 bn ($7.1 bn) in December. The Southbound Bond Connect program allows mainland investors to invest in the Hong Kong bond market, including dollar bonds and Dim Sum bonds, which offer comparatively higher yields than onshore CGBs. For example, the current on-the-run 5-year Dim Sum bond is trading at 1.89%, and the 5-year dollar bond at 4.03%, compared to 1.41% for the comparable CGB. Meanwhile, the onshore CGB yield curve has flattened, with the 1-year yield rising over 20 bps this month to 1.35%, narrowing its gap with the benchmark 10-year note to 31 bps, the smallest since December 2023. The flattening of the yield curve has promoted analysts to expect the PBOC to resume sovereign bond purchases to maintain a “normal, upward sloping” yield curve in the near term. On the trade front, a **softened tariff stance from President Donald Trump buoyed market sentiment**. In a TV interview, President Trump said he would prefer not to have impose tariffs on China, suggesting more trade negotiations are likely.



Mexico

Foreign investors increased exposure to Mexico bonds despite recent policy uncertainties. While the Mexico peso has weakened recently, speculative USDMXN positions have remained relatively “flat” (*left chart*). HSBC analyst noted that non-resident investors have also increased their holdings of Mexico’s local currency government bonds since December (*right chart*), suggesting that some investors might view that the threat of trade tensions may be less meaningful for Mexico compared to others who are anticipating a more adverse outcome. Bloomberg analyst also highlighted that Mexico's exports to the US, which is estimated to represent over a quarter of the country's GDP, have experienced steady growth since 2017, except for a brief decline in 2020. This export growth has persisted despite the renegotiated regional trade agreement with the US and Canada.



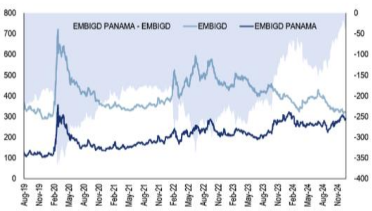


Panama

External bond spreads underperformed as tension escalates with the US. J.P. Morgan analysts highlighted that markets could price in a tail-risk to Panama’s credit despite prevailing baseline fundamental strength**.** They noted that there is “little clarity” on the “endgame” and noted that Panama sovereign credit spreads has substantially widened +84 bps from October to December last year before tightening earlier this month (*left chart*). Relative to benchmarks, Panama's valuations hover around BB-/B levels, reflecting a continued investors' bearish stance on its credit, despite its investment grade rating of BBB-/Baa3 (*right chart*). Although the analysts see a potential for cooperation and constructive diplomatic engagement between the US and Panama, they noted that the uncertainties along the path may hinder Panama's short-term credit outperformance.

Figure 1: Panama's spreads have widened materially since October

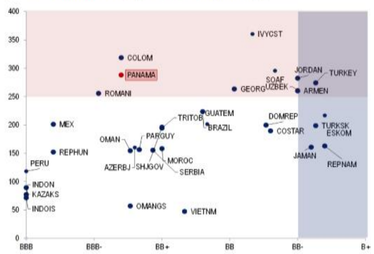
LHS: EMBIGD Panama/EMBIGD (bp)/LHS: EMBIGD - EMBIGD Panama (bp)



Source : J.P. Morgan

Figure 2: Panama trades in line with BB-/B credits

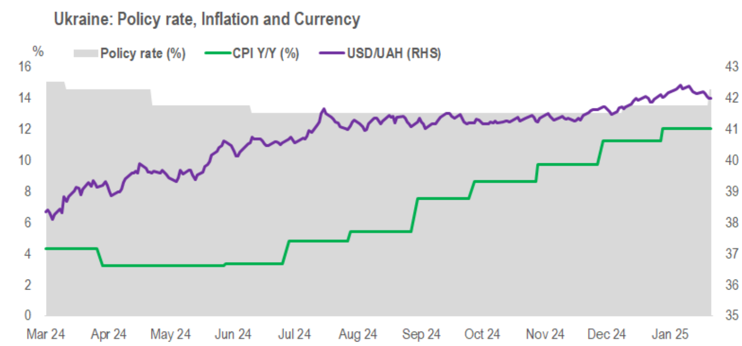
y-axis: EMBIGD STW (bp)/x-axis: average rating)



Source : J.P. Morgan

Ukraine

National Bank of Ukraine surprised with a 100bps rate hike yesterday. In an upside surprise to consensus expectations, the National Bank of Ukraine (NBU) raised interest rates by 100bps yesterday to 14.5%. The accompanying statement noted that the hike was "intended to support the sustainability of the FX market, keep inflation expectations in check, reverse the inflation trend and gradually bring inflation down to the target of 5%". Inflation in Ukraine has surprised to the upside, with 2024 year-end headline inflation printing at 12% y/y, relative to the NBU's October forecast of 9.7% y/y. Analysts at Goldman Sachs note that the latest updated economic projections show an upwards revision to the NBU's inflation forecast for 2025 to 8.4% y/y (vs 6.9% in the October forecast). The analysts also highlight that the statement guided towards further rate hikes noting that "curbing the price pressure is likely to require a further tightening of interest rate policy" with the forecast implying an additional 100bps rate hike at the upcoming March MPC meeting before the easing cycle resumes at a gradual pace in June. This morning the Ukrainian hryvnia was trading broadly unchanged against the dollar at 41.95/$, while dollar denominated government bond yields were lower with the 5Y yield down 16bps to trade at 13.7% and the 10Y yield down 14bps at 13.5%.



Source: Bloomberg and IMF staff calculations

This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (Senior Financial Sector Expert), Benjamin Mosk (Senior Financial Sector Expert), Sonal Patel (Senior Financial Sector Expert-London Representative), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are John Caparusso (Senior Financial Sector Expert), Mustafa Oguz Caylan (Research Officer), Sally Chen (IMF Resident Representative in Hong Kong), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Senior Research Officer), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Silvia Ramirez (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), Hong Xiao (Economist), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Jing Zhao (Economic Analyst). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Tyler (Administrative Coordinator) are responsible for the word processing and production of this monitor.

Global Financial Indicators

1/24/25 7:38 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		6,119	0.5	2.8	1.3	25.7	4
Europe		5,243	0.5	1.8	7.9	14.9	7
Japan		39,932	-0.1	3.9	-0.9	11.7	0
China		3,833	0.8	0.5	-3.7	15.0	-3
Asia Ex Japan		73	0.3	2.1	-1.2	13.5	1
Emerging Markets		43	0.2	2.1	0.1	9.9	2
Interest Rates					basis points		
US 10y Yield		4.6	0	1	5	46	7
Germany 10y Yield		2.6	3	5	26	24	21
Japan 10y Yield		1.2	2	3	15	51	13
UK 10y Yield		4.7	2	0	8	65	9
Credit Spreads					basis points		
US Investment Grade		117	0	-1	-2	-12	-3
US High Yield		296	2	-12	-16	-93	-32
Exchange Rates					%		
USD/Majors		107.6	-0.4	-1.2	-0.6	4.2	-1
EUR/USD		1.05	0.7	2.1	0.8	-3.7	1
USD/JPY		156.1	0.1	-0.1	-0.7	5.9	-1
EM/USD		43.8	0.4	2.1	0.9	-7.7	2
Commodities					%		
Brent Crude Oil ($/barrel)		78.8	0.6	-2.5	7.6	3.6	6
Industrials Metals (index)		145.4	0.8	-0.8	2.0	4.3	4
Agriculture (index)		58.8	-0.8	2.6	4.4	-5.1	3
Implied Volatility					%		
VIX Index (%, change in pp)		15.0	-0.1	-1.6	0.7	1.8	-2.4
Global FX Volatility		8.2	0.0	-0.9	-0.9	0.7	-1.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		87	-1	9	0	-17	1
Italy		109	-1	-2	-8	-47	-6
France		74	-1	-3	-7	24	-9
Spain		62	-1	-2	-8	-30	-7

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

Emerging Market Financial Indicators

Last updated: 1/24/2025 7:53 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		7.25	0.5	1.1	0.7	-1.2	0.7		1.7	1	2	-1	-86	0
Indonesia		16172	0.7	1.3	0.1	-2.8	-0.2		7.0	-1	-11	0	44	2
India		86	0.3	0.5	-1.2	-3.6	-0.7		7.1	-4	-11	-14	-3	-20
Philippines		58	0.6	0.5	0.2	-3.5	-0.6		5.1	-1	-5	14	-38	21
Thailand		34	1.0	2.4	1.5	6.1	2.0		2.4	-4	-7	7	-39	4
Malaysia		4.38	1.5	2.9	2.5	8.1	2.2		3.8	-1	-2	-3	-1	-1
Argentina		1047	0.0	-0.6	-2.0	-21.5	-1.5		25.3	-81	75	-303	-4910	-382
Brazil		5.91	0.3	2.9	4.8	-16.5	4.5		15.4	22	18	19	514	-50
Chile		984	0.4	2.3	0.3	-7.5	1.3		5.8	5	-10	17	35	9
Colombia		4232	0.8	2.7	4.4	-6.5	4.1		11.4	-5	-24	-15	167	-46
Mexico		20.26	0.6	2.6	-0.5	-15.0	2.8		10.0	-2	-27	-40	59	-35
Peru		3.7	0.1	1.2	0.2	1.4	1.1		6.8	1	13	2	11	13
Uruguay		44	-0.1	1.1	1.9	-10.9	0.4		9.7	-2	-2	0	37	1
Hungary		390	0.9	3.0	1.3	-8.8	1.8		6.5	-1	-15	14	67	10
Poland		4.02	0.6	3.1	1.9	0.0	2.7		5.6	5	2	11	54	4
Romania		4.7	0.6	2.0	0.7	-3.7	1.1		7.7	-4	-2	41	146	46
Russia		98.1	1.9	4.5	2.0	-9.4	15.8							
South Africa		18.4	0.7	2.0	1.6	2.8	2.5		10.5	8	-13	2	-75	7
Türkiye		35.69	-0.1	-0.7	-1.7	-15.3	-1.0		27.4	-29	-120	-355	-31	-232
US (DXY; 5y UST)		108	-0.4	-1.2	-0.6	4.3	-0.8		4.44	-1	1	1	36	6

	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		3,833	0.8	0.5	-3.7	15.0	-2.6		93	-2	-3	-69	-3
Indonesia		7,166	-0.9	0.2	1.2	-0.4	1.2		89	-7	0	-19	-2
India		76,190	-0.4	-0.6	-3.2	7.8	-2.5		91	15	7	-35	5
Philippines		6,296	-1.3	-0.9	-3.6	-5.8	-3.6		84	-4	6	-6	5
Thailand		1,354	0.7	1.0	-3.4	-1.0	-3.3						
Malaysia		1,574	-0.2	0.4	-3.3	4.5	-4.2		70	-3	0	-21	0
Argentina		2,625,050	-2.1	-0.2	2.9	109.7	3.6		645	24	-7	-1252	8
Brazil		122,483	-0.4	1.0	1.4	-4.2	1.8		217	-8	-24	-5	-30
Chile		7,052	0.3	1.3	5.6	16.4	5.1		113	-8	1	-21	0
Colombia		1,397	1.1	0.4	1.0	10.8	1.3		312	2	-6	-4	-14
Mexico		51,055	0.2	2.2	3.5	-7.9	3.1		310	3	2	-29	-2
Peru		29,051	-0.6	-2.2	-0.3	10.2	0.3		138	-2	1	-22	-3
Hungary		85,058	0.8	0.2	7.0	32.6	7.2		148	-14	-4	-22	-7
Poland		85,835	0.7	2.6	7.8	13.9	7.9		107	-9	-3	3	-5
Romania		17,062	0.0	0.3	0.8	12.8	2.0		254	-3	21	45	19
South Africa		84,625	0.8	-0.1	-0.4	13.9	0.6		293	-3	4	-51	0
Türkiye		10,087	-0.3	1.1	4.3	24.7	2.6		260	-11	1	-95	1
EM total		43	0.6	2.1	0.1	9.9	2.0		354	-8	-10	-10	-10

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

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