GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, JULY 1, 2026

LEAD EDITOR: SANJAY HAZARIKA

- **Global financial markets in H1 2026 were driven by the Middle East and AI** (link)
- **Revenue from AI may be starting to exceed infrastructure costs** (link)
- **Markets reduce ECB rate hike expectations as inflation comes in below forecasts** (link)
- **Hedging of equity exposures may be a key driver of Yen weakness** (link)
- **Higher inflation expectations could lead to rate hike in South Africa** (link)
- **Colombia delivers hawkish surprise with 75 bps rate hike** (link)

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Global Markets Begin New Quarter with Cautious Stance

Global markets fell back today after setting multiple records yesterday. Asia and Europe lost ground and US equity index futures pointed to a negative open. A mood of caution prevails ahead of Fed Chair Warsh's upcoming speech at the ECB conference at Sintra in Portugal today, as well as tomorrow's US jobs report. The dollar is stronger across the board and government bond yields are mostly higher. Markets increased the odds of rate hikes in the US while dialing down hike expectations from the ECB after EU inflation data came in weaker than expected. The Yen remains in the spotlight, depreciating further to 162.70, the weakest level since 1986. There is some evidence that hedging of equity exposures could be contributing to Yen weakness, given the extremely large gains registered by local equity markets over the past year. Meanwhile, higher inflation in South Africa and Colombia increases the odds of hawkish policy moves.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
7/1/26 7:55 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		7499	0.8	2	-1	21	10
Eurostoxx 50		6301	-0.4	1	4	19	9
Nikkei 225		70475	0.6	2	6	77	40
MSCI EM		68	1.5	2	-2	42	25
Yields and Spreads					bps		
US 10y Yield		4.48	1.6	9	3	24	31
Germany 10y Yield		2.90	3.6	3	-11	32	4
EMBIG Sovereign Spread		235	-5	3	-2	-87	-18
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.6	0.0	0	-2	1	0
Dollar index, (+) = $ appreciation		101.4	0.2	0	2	5	3
Brent Crude Oil ($/barrel)		72.2	-1.0	-2	-24	8	19
VIX Index (%, change in pp)		16.7	0.2	-2	1	0	2

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

Key Global Inflation and Energy Indicators

Last updated: 7/1/26 7:55 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Oil and Gas			%				%
Brent Crude Oil ($/barrel)		72	-1.0	-2	-24	8	19
WTI Crude Oil ($/barrel)		69	-0.8	-2	-25	5	20
Natural Gas (Netherlands TTF)		44	0	7	-11	31	63
Breakeven Inflation		%	bps				
USD: 2Y		2.3	-0.5	3	-53	-42	4
USD: 5Y		2.4	0.7	6	-24	-12	6
USD: 5Y5Y		2.4	2	3	-6	-11	-9
EUR: 2Y		2.0	-20.0	-16	-57	31	32
EUR: 5Y		2.0	-8	-4	-28	14	20
EUR: 5Y5Y		2.1	1	1	-6	-3	3

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

Global Financial Markets H1 2026

The first half of 2026 was driven by two major developments—the conflict in the Middle East and the continued rollout of the AI investment theme. The outbreak of hostilities in the Gulf caused Brent oil to spike upwards towards $120/barrel and triggered a global equity selloff of 8–10%. However, markets recovered rapidly in the aftermath as investors took the view that the impact of the war would not be as severe as initially believed. Oil prices delivered a round trip, falling back to prewar levels, while stocks rallied strongly to new record highs. Government bond yields had surged on worries about inflation, but the moves were partially unwound as war fears dissipated. Meanwhile, the AI trade continued, with extremely large gains in Korea and Taiwan POC as well as Japan. The share prices of the Magnificent Seven lagged, overtaken by semiconductor, memory, and chip stocks. The equity gains broadened beyond the technology sector to other industries, from materials to transports and from large cap to small and mid-cap. Japan remained in the spotlight as the Yen depreciated to its weakest level since 1986 and long dated JGB yields moved higher due to continued fiscal concerns. Worries about political influence over the Fed receded as the new Fed Chair reassured markets and the US Supreme Court reaffirmed the independence of the Board of Governors. Many global equity indexes were at or near record highs on the last day of the quarter.

Year-to-Date Performance of Selected Markets in H1 2026 as of 4:00 PM 6/30/26
Source: Bloomberg and IMF Staff Calculations
Equity Returns in Local Currency

US 10yr Treasury	**4.40% (+23 bps)**
10yr Bund	**2.85% (unchanged)**
30yr JGB	**3.93% (+53 bps)**
10yr China Government Bond	**1.73% (-12 bps)**
JP Morgan EMBIG spread (emerging markets)	**240 bps (-12 bps)**
EUR	**1.1413 (Euro 2.8% weaker)**
JPY	**162.40 (Yen 3.5% weaker)**
CNH	**6.7896 (Yuan 2.7% stronger)**
S&P 500	**9.6%**
Euro Stoxx 600	**+8.4% (record close)**
Nikkei	**+39.2% (record close)**

Shanghai CSI 300	**+7.6%**
Brazil Bovespa	**+6.8%**
Korea KOSPI	**101.1% (record close)**
TAIEX	**59.3% (record close)**
MSCI EM	**+25%**
Brent Oil	**$73 (+20%)**
Copper	**$13,278 (+6.9%)**
Gold	**$4,020 (-7%)**
Bitcoin	**$58.7K (-33%)**

Mature Markets

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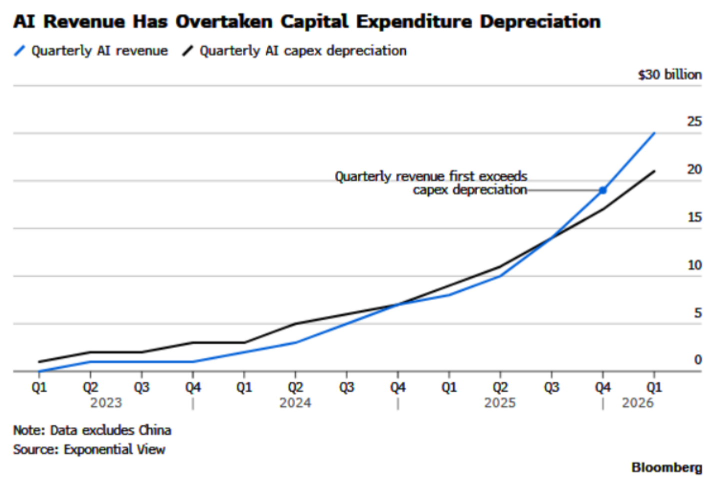
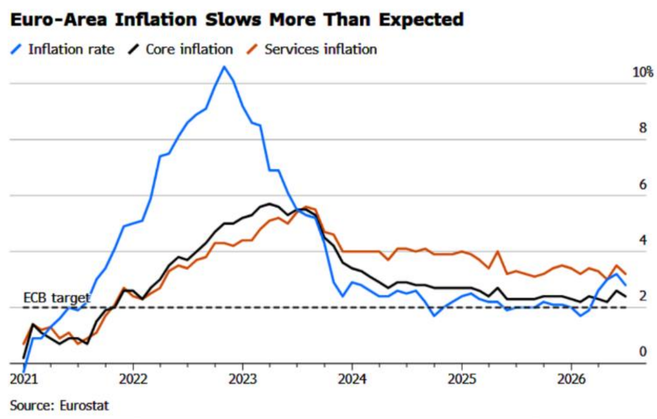
United States



Revenue from AI may be starting to exceed infrastructure costs, according to a preliminary study quoted by Bloomberg. Technology companies are spending hundreds of billions of dollars to build AI infrastructure which use the latest high-performance chips, raising the question of whether these companies will earn a sufficient return on their investment to justify the expenditures. Based on the assumption that these AI expenditures can be amortized over six years (the baseline industry standard), the study by Exponential View finds that AI-related revenues reached $25 bn in Q1 2026, compared to depreciation charges of $21 over the same period. It is too early to conclude that this is a sustainable trend, and the challenges remain considerable. AI-related companies have to find new ways to monetize their services and technology in an environment where token costs are rising sharply and many potential clients are trying to save money by switching to cheaper alternatives, even if these may not have the full capability of the most advanced models.

Euro Area

European equities were trading lower on the first day of the third quarter, after having reached a new all-time high yesterday. The Stoxx 600 was around -0.2% lower in early morning trade with regional bourses trading mixed. European government bond yields edged higher across the curve ahead of the second day of speakers at the ECB Forum on Central Banking in Sintra. The 10Y bund yield edged up 2bp to 2.88%, while the 10Y UK gilt yield was around 2bp higher at 4.78%. Market participants attribute the higher yields to spillovers from yesterday's sell-off in US Treasuries where yields climbed after a strong job openings report as well as quarter-end rebalancing flows. Elsewhere, the euro was -0.3% weaker against a broadly stronger dollar to trade at 1.1388 while pound sterling was around 0.1% weaker versus the dollar at 1.3246.



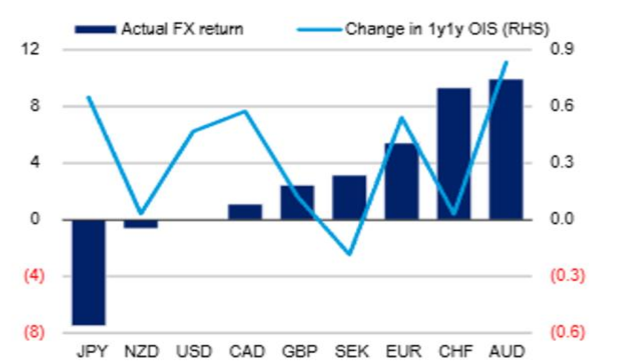
Markets reduced ECB rate hike expectations as June flash euro area inflation surprises to the downside. Following yesterday's country-level data which saw flash CPI prints surprising on the downside in several member states, this morning's euro area flash headline inflation data printed at 2.8% (vs. 3.0% expected) and down from 3.2% in the prior month. June flash core inflation also surprised to the downside at 2.4% (vs 2.5% expected) and down from 2.6% in May. Following this morning's data release, money markets pared back ECB rate hike expectations with markets pricing in around 21bp of hikes by December, down from around 29bp priced last Wednesday and a total of 27bp of hikes by June 2027, down from 38bp expected last week. Analysts at ING note that recent data outturns including survey data suggest that the outlook for the ECB may turn more dovish.

Media reports suggest the ECB may be considering raising banks' minimum reserves requirements. This morning, Reuters reported that ECB policymakers are considering proposals to raise banks' minimum reserve requirements to 2% from 1%. According to the article, the measure would help reduce excess liquidity as well as reduce the interest bill that the ECB and the 21 national central banks of the euro area are currently paying on excess liquidity. Reuters reports that the proposal may likely be discussed as part of the ECB's framework review which is expected later this year.

Japan

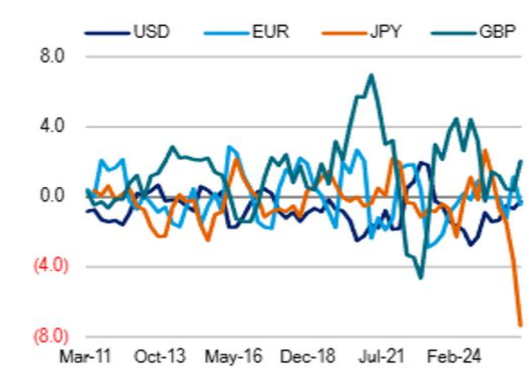
FX hedging from equity exposures could be an important component of recent yen weakness according to Bank of America analysts. The yen has fallen to a four-decade low versus the dollar despite a significant rise in short rates in Japan, as well as supportive balance of payments. The analysts estimate that FX hedging of equity investments far surpasses that seen in other G10 currencies, and that this is likely an important contributor to the recent depreciation of the currency. Their model estimate of FX hedging is in part driven by the significant rally in the Nikkei, which has risen about 75% over the past year.

Exhibit 2: FX return (%, vs USD) and change in 1y1y OIS rate (% points) since end-Mar 2025
JPY underperforms despite the second-largest hawkish repricing in rates



Source: BofA Global Research, Bloomberg

Exhibit 3: Estimated FX hedging flows across major currencies (4-quarter rolling sum, % of GDP, through 2Q26; see footnote for methodology; positive = net buying of currency)
JPY selling stands out across major currencies



Source: BofA Global Research, Bloomberg, Haver

Emerging Markets

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EMEA currencies were mostly weaker against a broadly stronger US dollar this morning. Bloomberg reports that Bank of Ghana Governor Johnson Asiama said Africa's growing reliance on domestic borrowing is reducing exposure to exchange-rate shocks but shifting financial risks to domestic banking systems. Bloomberg also reports that Egypt issued a JPY 75 bn (USD520 mn) sustainability samurai bond backed by an African Development Bank partial credit guarantee. **Latam currencies were generally weaker against the dollar.** Most regional equities were lower, although Chile and Peru made gains.

LATAM Equities

Equity valuations across most LATAM countries have fallen below their longer-term averages this year, pushing the region's overall multiples to a deeper-than-usual discount versus broader EM equities as well as global equities. The MSCI LATAM index's one-year forward price-to-earnings multiple now trades at a 19% discount to EM, compared with a 10-year average discount of 9.7% (Figure 1). Notably, LATAM's tech sector, which typically trades at a 1.9x premium to the broader EM tech sector, has also seen its valuation premium compress considerably (Figure 2).

Figure 1. LatAm Discount to EM Remains Wide

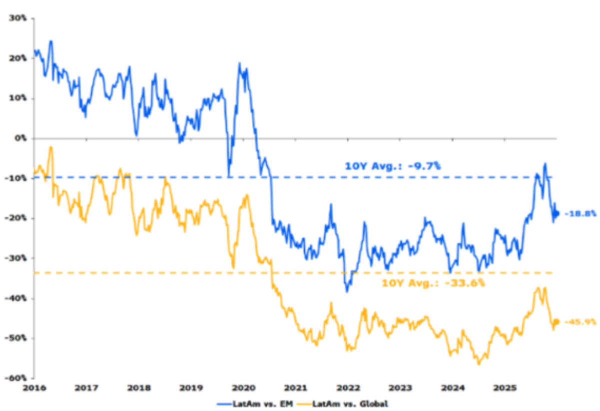
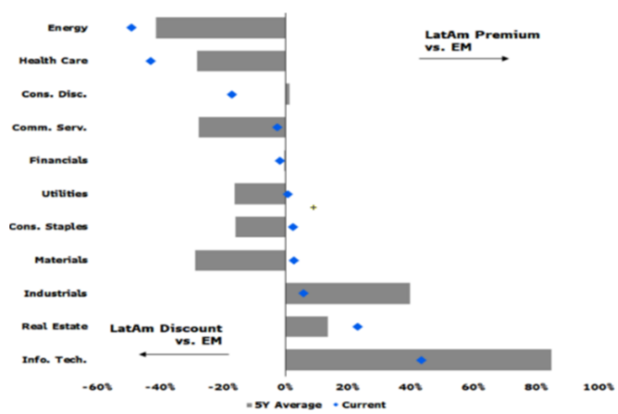


Figure 2. LatAm Tech Premium to EM Compresses

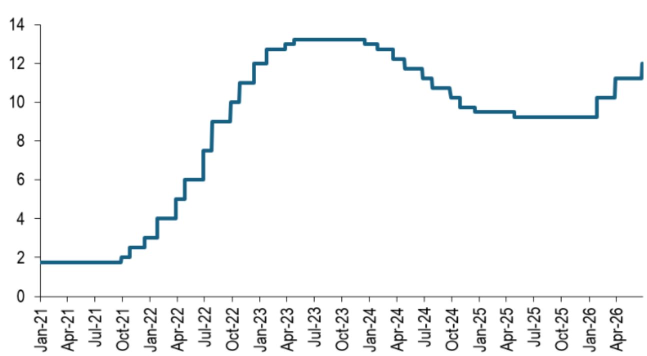


Sources: MSCI; Bloomberg Intelligence

Colombia

The central bank resumed its tightening cycle with a hawkish surprise, hiking the policy rate by 75bps to 12%, citing above-target inflation expectations and a tight labor market. The market consensus was for a 50bps hike. Earlier in the year, the central bank hiked the policy rate twice by 100 bps each in January and March but surprised markets by holding rates steady in April. Throughout this time, the government had been critical of the central bank for keeping monetary policy tight, while the central bank continued to cite risks from the large fiscal deficit and the significant increase in wages. Markets are now pricing in limited further tightening, with the one-year swap rate repriced to 12.13%. The Colombian peso outperformed other EM currencies, appreciating 0.7% against the dollar on the hawkish surprise.

Figure 1. Colombia's central bank hikes policy rate by 75bps to 12% (Percent)

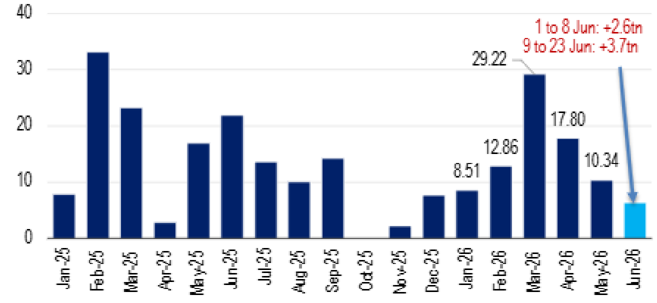


Source: Bloomberg

Indonesia

Bank of Indonesia has significantly slowed its pace of balance sheet expansion, seemingly delivering on promises made when the central bank surprised with an off-cycle 25 bp hike on June 9. At the time, the bank said that it would stop purchasing government bonds in the secondary market with maturities greater than 10 years. According to Bank of America analysis, balance sheet expansion has slowed dramatically in June relative to the prior few months. While the rupiah has depreciated by 1% versus the dollar over the past two weeks, it is still stronger compared to before the surprise hike. On the year, the rupiah is nearly 7% weaker versus the dollar.

Exhibit 1: BI's pace of balance sheet expansion has slowed in Jun 2026 (in line with its stated plans)
BI gross change in government bond holdings (IDR tn)

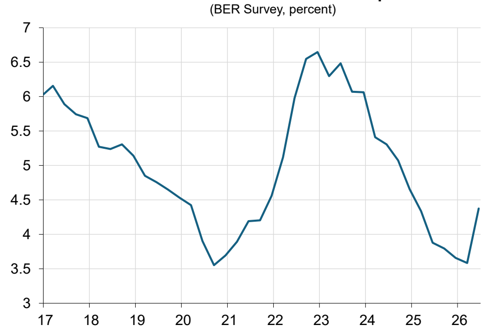


Source: BofA Global Research, Haver, BI

South Africa

Higher inflation expectations strengthened the case for a July SARB rate hike, according to Goldman Sachs (GS). South Africa's Q2 BER survey showed two-year inflation expectations rising to 3.9% from 3.6%, while five-year expectations increased to 4.1% from 3.6%, reinforcing expectations that the South African Reserve Bank will raise its policy rate by 25bp in July. **SARB said foreign investors returned to the local bond market after March's selloff**, increasing their holdings by ZAR 37.1 bn in April and May, with cumulative net purchases reaching ZAR 28.3 bn in the first five months of 2026, more than double the level a year earlier (Bloomberg). The central bank also reported that average daily trading volumes rose to USD 13.7 bn in the first quarter from USD 11.4 bn in the previous quarter as Middle East-related volatility boosted foreign exchange activity. Separately, the National Treasury said it plans to tap its existing rand-denominated sukuk this fiscal year, with the timing and size of the issuance to be announced closer to the sale.

South Africa Current Year Inflation Expectations
(BER Survey, percent)



Source: Bloomberg

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Global Financial Indicators

Last updated: 7/1/26 7:57 AM	Level Last 12m	Level Latest	Change 1 Day	Change 7 Days	Change 30 Days	Change 12 M	YTD
Equities					%		%
United States		7,499	0.8	1.8	-1.3	21.0	10
Europe		6,301	-0.4	1.4	4.4	19.3	9
Japan		70,475	0.6	1.9	5.6	77.2	40
China		4,959	-0.4	0.3	0.9	25.7	7
Asia Ex Japan		119	1.6	2.2	-2.4	44.1	28
Emerging Markets		68	1.5	1.8	-2.4	41.5	25
Interest Rates					basis points		
US 10y Yield		4.5	2	9	3	24	31
Germany 10y Yield		2.9	4	3	-11	32	4
Japan 10y Yield		2.7	3	4	3	132	65
UK 10y Yield		4.8	5	12	-10	35	32
Credit Spreads					basis points		
US Investment Grade		113	-1	7	8	-16	6
US High Yield		307	-14	-5	-8	-37	-29
Exchange Rates					%		
USD/Majors		101.4	0.2	-0.2	2.2	4.7	3
EUR/USD		1.14	-0.3	0.3	-2.1	-3.5	-3
USD/JPY		162.7	0.1	0.6	1.9	13.4	4
EM/USD		46.6	0.0	-0.4	-2.0	0.6	0
Commodities					%		
Brent Crude Oil ($/barrel)		72.2	-1.0	-2.2	-21.9	11.2	20
Industrials Metals (index)		169.7	-0.8	0.6	-10.1	14.3	4
Agriculture (index)		55.5	1.0	2.3	-3.0	1.8	4
Gold ($/ounce)		4032.6	0.6	0.8	-10.1	20.8	-7
Bitcoin ($/coin)		58528.2	-0.2	-1.8	-18.0	-44.8	-33
Implied Volatility					%		
VIX Index (%, change in pp)		16.7	0.2	-2.0	0.6	-0.2	1.7
Global FX Volatility		6.6	0.0	-0.4	0.2	-2.1	-0.3
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		70	2	2	2	-1	11
Italy		79	2	7	6	-8	9
France		81	1	4	18	13	10
Spain		50	1	2	7	-15	6

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

Emerging Market Financial Indicators

7/1/2026 7:58 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		6.79	-0.1	0.2	-0.4	5.5	2.9		1.8	2	-1	1	9	-13
Korea*		1558	-0.6	-1.0	-2.9	-12.9	-7.3		4.2	-5	-1	20	148	93
Indonesia		17952	-0.3	0.0	-0.8	-9.8	-7.1		7.2	0	-6	36	54	112
India		95	-0.6	-0.6	-0.3	-10.2	-5.6		7.7	3	0	-12	99	61
Philippines		62	-0.5	-0.1	0.2	-8.6	-4.4		5.9	4	-4	-16	111	126
Thailand		33	-0.4	0.2	-2.2	-2.7	-5.6		2.2	1	-3	-17	47	43
Malaysia		4.09	-0.2	1.1	-3.2	2.5	-0.8		3.6	0	-1	5	10	11
Argentina		1483	-0.2	-0.9	-3.8	-18.9	-2.1		0.0	0	0	0	-3247	-3237
Brazil		5.16	0.2	0.4	-2.6	5.2	6.5		14.2	-6	-36	23	63	68
Chile		922	0.0	-0.8	-3.3	1.0	-2.4		5.4	-1	-4	-8	-12	6
Colombia		3429	0.7	-0.3	3.8	19.2	10.1		12.0	-6	-11	-166	-7	-86
Mexico		17.53	-0.2	0.5	-0.9	6.9	2.8		9.0	9	4	-9	-22	1
Peru		3.4	0.0	-0.1	0.1	3.9	-1.4		6.1	-1	0	-8	-30	31
Uruguay		40	0.1	-0.1	0.5	-0.5	-2.5		7.5	5	0	-4	-140	-6
Hungary		312	-0.4	0.2	-2.1	8.3	4.7		5.0	0	-11	-30	-162	-151
Poland		3.77	-0.2	0.0	-3.5	-4.6	-4.9		4.7	-3	-16	-38	-29	15
Romania		4.6	-0.2	0.3	-1.9	-6.6	-5.7		6.6	-1	-11	-12	-77	-10
Russia		78.0	0.7	-4.0	-7.6	0.6	1.0							
South Africa		16.4	-0.2	0.9	-0.6	7.2	0.9		8.6	7	-5	-12	-166	2
Türkiye		46.67	0.0	-0.4	-1.7	-14.6	-8.0		33.7	7	-59	-210	242	409
US (DXY; 5y UST)		101	0.2	-0.2	2.2	4.7	3.1		4.24	1	6	7	40	51

	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		4,959	-0.4	0.3	0.9	25.7	7.1		85	2	-1	-24	10
Korea*		8,303	-2.0	-2.0	-5.7	170.0	97.0		22	-1	0	-4	0
Indonesia		5,695	0.9	-3.2	-8.1	-17.2	-34.1		103	-3	5	3	17
India		76,923	0.9	0.9	3.0	-7.8	-9.7		88	-7	8	-16	-2
Philippines		6,069	0.5	1.3	2.6	-5.4	0.3		84	-3	-5	-3	9
Thailand		1,588	-0.2	2.6	0.0	42.4	26.1						
Malaysia		1,657	-0.4	-1.5	-1.6	6.9	-1.4		51	-1	6	-26	-8
Argentina		3,168,608	-0.3	-2.5	-2.3	56.0	3.8		432	-8	-70	-278	-137
Brazil		172,024	-0.7	0.4	-0.1	23.3	6.8		186	0	3	-34	-17
Chile		10,840	0.7	0.7	2.0	32.0	3.4		87	-1	-3	-28	-4
Colombia		2,269	-0.8	-3.3	0.6	35.5	9.7		202	4	-47	-142	-75
Mexico		66,967	-1.0	0.2	-1.7	15.8	4.1		201	-2	-3	-76	-16
Peru		3,302	2.2	-2.7	-1.5	69.9	27.8		90	-1	-1	-39	-19
Hungary		140,829	0.7	1.4	5.3	44.5	26.8		105	2	-8	-60	-34
Poland		135,638	0.0	0.7	0.4	30.2	15.7		85	-2	-9	-26	-6
Romania		32,880	1.2	5.8	10.0	74.5	34.5		180	4	0	-62	4
South Africa		109,029	-1.2	-0.7	-2.7	12.5	-5.9		203	-5	-4	-102	-15
Türkiye		14,349	1.6	0.1	4.7	42.3	27.4		249	-4	-16	-60	15
EM total		68	-1.1	1.8	-2.4	41.5	25.0		263	6	3	-107	-8

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

*Not an EM Under IMF Classification.

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