



- **JP Morgan falls on weaker trading revenue while Goldman beats strongly** ([link](#))
- **Fed to remain cautious on tapering** ([link](#))
- **Investors remain short the Treasury market despite recent rally** ([link](#))
- **US corporate bond market near historic tight spreads** ([link](#))
- **Bond defaults rise in China** ([link](#))
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## Global markets at or near record highs

The S&P 500 has posted new records on 10 of the past 12 trading days and many other markets worldwide are at or close to record highs. The Dow, Nasdaq, and S&P 500 all set new records yesterday. This morning, most European stocks were little changed and US equity futures were mixed as markets digested the first major report for the Q2 earnings season as well as US CPI data. Investors are looking for clues about future policy ahead of central bank meetings in Canada and Japan, among others, and Fed Chair Powell's testimony before the US Congress. Oil prices are higher again today, while US Treasury yields are slightly lower. The dollar is mixed against other major currencies. The Bank of England removed restrictions on bank dividends.

Key Global Financial Indicators

Last updated: 7/13/21 8:33 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
S&P 500		4385	0.3	1	3	39	17
Eurostoxx 50		4093	0.0	1	-1	22	15
Nikkei 225		28718	0.5	0	-2	27	5
MSCI EM		54	0.1	-2	-3	25	4
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.38	1.5	3	-7	76	47
Germany 10y Yield		-0.30	0.0	-3	-2	12	27
EMBIG Sovereign Spread		346	-1	3	18	-120	-4
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		56.5	-0.4	0	-3	3	-2
Dollar index, (+) = \$ appreciation		92.3	0.1	0	2	-4	3
Brent Crude Oil (\$/barrel)		75.6	0.5	1	4	77	46
VIX Index (% change in pp)		16.0	-0.1	0	0	-16	-7

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

## Mature Markets

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### United States

**Today's CPI data once again came in stronger than expected.** The bond market reaction was immediate, with Treasuries reversing earlier gains to send yields higher and eurodollar futures yields rising 4-5 bps. US equity index futures declined.

### US CPI

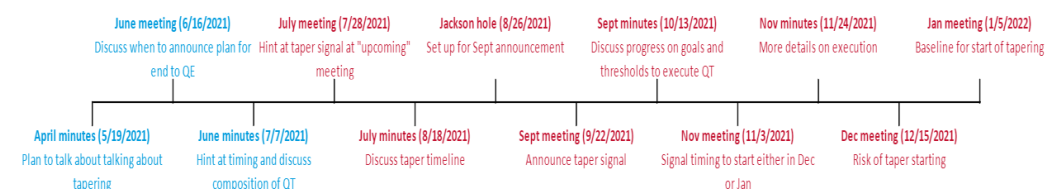
Consensus Forecast		Actual Data
Headline CPI mom	+0.5%	+0.9%
Core CPI mom	+0.4%	+0.9%
Headline CPI yoy	+4.9%	+5.4%
Core CPI yoy	+4.0%	+4.5%
Source: Bloomberg		

**JPMorgan earnings beat consensus, but the market focused on weak FICC revenues.** JPMorgan announced 2Q21 net income of \$11.5bn, 19% above analyst consensus. This was supported by a \$3bn release of loan-loss reserves, which drove a \$2.3bn decline in provisions. However, the market focused on slightly disappointing revenues in the bank's fixed income, currency, and commodities (FICC) operation. **Goldman Sachs reported 2Q21 net income 47% above expectations on strong investment banking and trading results.** As a result, JPMorgan fell as much as -1.8% in pre-market trading; Goldman traded slightly lower.

**The Fed will maintain its cautious stance with regard to tapering, according to analysts at Bank of America.** They think Fed Chair Powell and the majority of the FOMC remain committed to flexible average inflation targeting (FAIT), despite comments from some of the hawkish members. According to their forecasts, the Fed will signal the commencement of tapering at the September 22 meeting and actual tapering will be announced at the January 5, 2022 meeting, although there is a chance this could occur at the December 15 meeting. As for rate hikes, these remain some way off in the future. The bond market selloff after the June 16 meeting bought the market estimate for the first rate hike to Q4 2022, but the subsequent rally in bonds has pushed the estimate back to Q1 2023.

**Exhibit 1: A timeline for taper: baby steps to ease the markets (blue is actual, red is BofA Economics forecast)**

BofA Economics expectations for tapering: next up July meeting to send an explicit signal about the upcoming announcement of the plan



Source: BofA Global Research

Note: Blue text is what has already happened and red text is what we expect to happen

**Investors remain short the Treasury market despite the recent rally in rates.** JP Morgan investor data show that there was a limited amount of short covering last week, but on the whole positions remain very short overall. The level of short positioning is approaching what was seen in 2017-18 when the Fed was raising rates and shrinking its balance sheet. However, the data also show that investors are exiting the very popular curve steepening trades that were put on earlier in the year, suggesting that they are not as confident about the pace and extent of future interest rate rises.

Exhibit 5: Our Treasury Client Survey indicates there has been some short covering in recent weeks, but positions are far from neutral  
J.P. Morgan Treasury Client Survey net longs, %

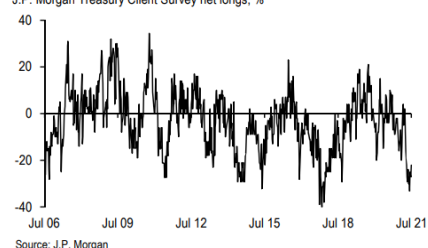
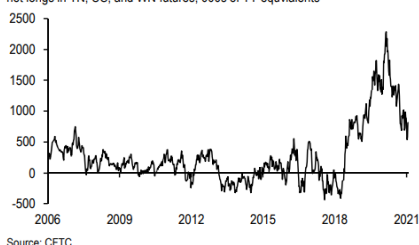


Exhibit 6: Steepener positions have been cut further since the June FOMC meeting but remain large relative to historical averages  
Sum of speculative net longs in TU, FV, and TY futures minus sum of speculative net longs in TN, US, and WN futures; 000s of TY equivalents



**Spreads in the US corporate bond market are near historic tight.** For some sectors, spreads are at or below their 5% percentiles based on historic data, according to analysis by Goldman. Its analysts believe that the trough in spreads has been reached and markets are due for a rise in spreads in the coming months. However, they think the widening move will be limited, given continued very strong investor demand and the low level of interest rates. The biggest risk is that Treasury yields will suddenly spike upwards, as the predominance of low coupon bonds in the current environment means that investors are highly exposed to duration risk. Low coupon bonds have much higher sensitivity to interest rate shocks than bonds with higher coupons. In Europe, where the ECB is much more dovish than the Fed, there is still scope for more spread tightening.

Exhibit 1: Elevated valuations coupled with the Fed's shift leave little room for further compression in risk premia

Historical percentile ranks for various bond index spreads. We use OAS for the HY, IG, agency MBS, and credit card ABS indices, discount margin for CLO tranches, and Z-spread for non-agency RMBS.

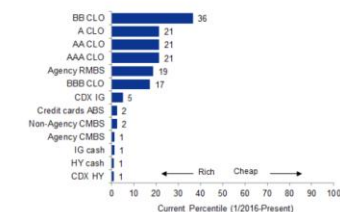


Exhibit 2: We think the trough in USD spreads is most likely behind us but we see room for some tightening in the EUR market

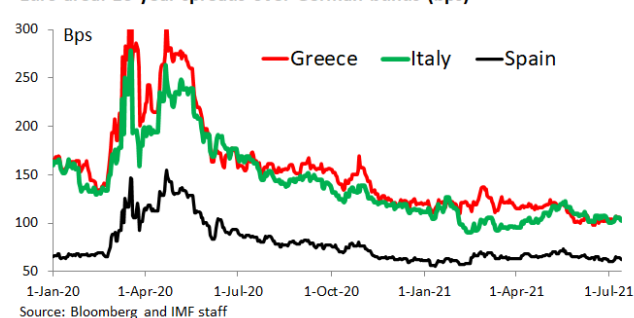
Market	Updated through Jul 10, 2021				
	Current	2021Q3	2021Q4	2022Q1	2022Q2
<b>USD Spreads</b>					
IG	85	90	91	95	97
IG Fin	75	78	80	82	85
IG Non-Fin	88	93	96	99	102
High Yield	271	276	281	288	296
<b>EUR Spreads</b>					
IG	95	94	92	91	90
IG Fin	101	100	98	96	95
IG Non-Fin	92	91	89	86	87
High Yield	303	292	285	280	275

Source: Bloomberg-Barclays, iBoxx, Goldman Sachs Global Investment Research

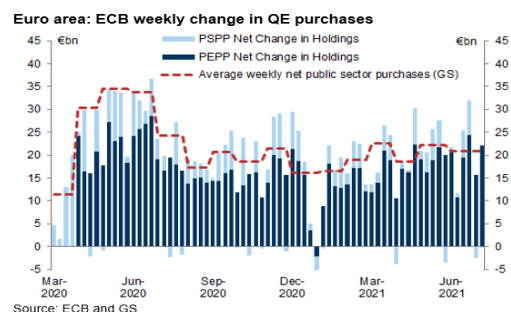
## Euro area

**10-yr bund yields edged lower after ECB President Lagarde said that she has no illusion that every policy meeting will result in unanimous consent and universal acceptance, and that the ECB's new strategy will be tested every six weeks.** Nevertheless, she reiterated that the strategy offers a new foundational framework that is simple, solid, and symmetric.

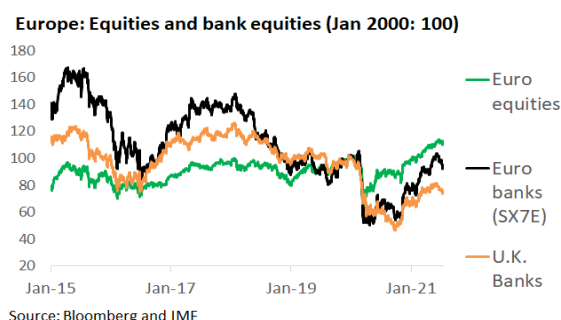
Euro area: 10-year spreads over German bunds (bps)



**Weekly ECB data showed a net increase in PEPP holdings of €22 bn last week.** The ECB has maintained a strong pace in its pandemic QE purchases as issuance of euro area government bonds has been brisk.



**Euro area bank stocks (-1.0%) fell after Bank of Spain deputy governor Delgado said that the ECB may use tools to rein in payments of excessive dividends.** The deputy governor confirmed that the ECB will most likely lift restrictions on dividend payments in 2021 but added that banks should pursue a more modest payout policy. **Euro area bank stocks are up 24% year-to-date but are trading below the high reached in early June.** The broad equity market (-0.1%) was little changed today.

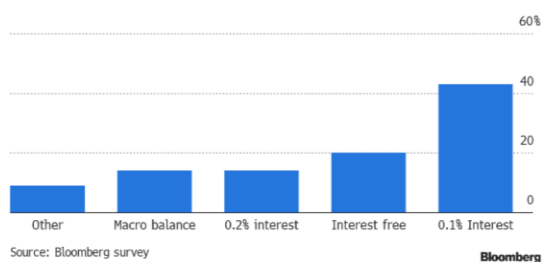


## Japan

**Expectations for this week's Bank of Japan (BOJ) meeting are for the bank to cut its growth forecast for this fiscal year while raising next year's growth projections.** The BOJ will also outline its new climate funding program and expectations are that it would be modeled on existing incentives that pay interest or offer some exemptions from the BOJ's negative interest rate to banks which are lending to firms coping with the pandemic. **Separately, the BOJ is reportedly considering buying green bonds as part of a joint effort among Asian central banks to promote the green bond market in the region.** According to Reuters, the BOJ will make the purchases through the 'Asian Bond Fund', which was created in 2005 by a forum for the region's central banks dubbed the Executives' Meeting of East Asia-Pacific Central Banks.

### Green Incentive

BOJ paying 0.1% interest is the most popular option among economists



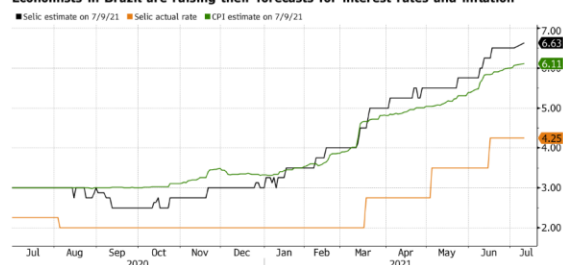
## Emerging Markets [back to top](#)

**Most emerging market equities and currencies were stronger.** The South African rand (-1.2%) underperformed for the second day on domestic unrest concerns. In the Philippines equities underperformed (-1.7%) and 10Y bond yield added 13 bps following Fitch's sovereign rating outlook revision to negative from stable. Chile revised its 2021 GDP growth up to 7.5% on the back of higher copper prices.

### Brazil

**Analysts raised their end-2022 interest rate estimate for the second week in a row.** As consumer prices continue to rise, they raised their end-2022 interest rate estimate in the latest weekly central bank survey. According to Bloomberg, economists expect the benchmark Selic rate to reach 6.6% by end-2021 and 7% by end-2022, up from their prior estimates of 6.5% and 6.75%, respectively. Pressured by electricity and services sector prices, inflation is expected to reach 6.11% by the end of 2021, well above the 3.75% central bank target rate.

**Drifting Apart**  
Economists in Brazil are raising their forecasts for interest rates and inflation



Source: Brazil Central Bank and Bloomberg

### China

**China's export growth was stronger than expected in June.** Export growth picked up to 32.2% y/y in dollar terms in June from 27.9% y/y in May, beating consensus estimates for a slowdown to 23%. **Separately, bond defaults among property developers continue to rise.** Sichuan Languang Development Co. was the latest developer to default as it was not able to raise enough funds for the repayment on a RMB900 mn (\$139 mn) local bond that matured Sunday. S&P downgraded the rating to D from CCC- and said that the delinquency "will also trigger cross-defaults" on local bonds and the firm's offshore debt. Languang has \$1.05 bn of dollar bonds outstanding, according to Bloomberg.

**China's export growth accelerated in June, while imports eased**



Source: General Administration of Customs

Bloomberg

### Uzbekistan

**The Ministry of Finance issued a 10-year dollar and 3-year Uzbekistan som Eurobonds.** The local currency security was placed as a sustainability bond, the first such sovereign placement in Central Asia. While the final book size remains undisclosed, the issuance raised \$880 mn in total while final pricing

tightened by about 50 bps as compared to the initial guidance, indicating solid investor appetite. The Finance Ministry has noted that it aims to use Uzbekistan som-denominated Eurobonds to promote on-shore local currency bond market development.

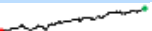
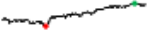







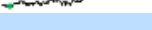

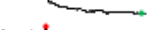
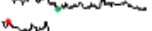
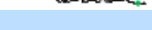




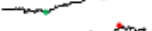





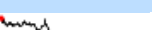





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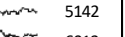

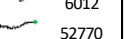

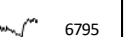

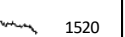

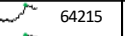

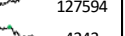

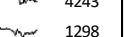



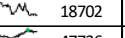

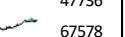

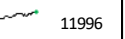

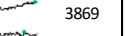

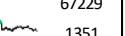

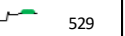

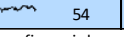

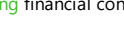
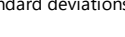






## Global Financial Indicators

Last updated: 7/13/21 8:27 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		4388	0.3	1	3	39	17
Europe		4092	0.0	1	-1	22	15
Japan		28718	0.5	0	-2	27	5
China		3567	0.5	1	-1	4	3
Asia Ex Japan		92	0.2	-2	-3	23	2
Emerging Markets		54	0.1	-2	-3	25	4
<b>Interest Rates</b>			basis points				
US 10y Yield		1.35	-1.7	0	-10	73	43
Germany 10y Yield		-0.30	-0.9	-4	-3	11	27
Japan 10y Yield		0.03	-0.5	-2	-1	-2	0
UK 10y Yield		0.63	-1.7	0	-7	45	44
<b>Credit Spreads</b>			basis points				
US Investment Grade		90	0.5	1	-1	-51	-5
US High Yield		317	1.2	-1	-12	-290	-63
Europe IG		47	-0.1	0	0	-15	-1
Europe HY		233	0.1	1	1	-136	-8
<b>Exchange Rates</b>			%				
USD/Majors		92.36	0.1	0	2	-4	3
EUR/USD		1.18	-0.2	0	-2	4	-3
USD/JPY		110.2	-0.1	0	0	3	7
EMUSD		56.7	-0.1	0	-2	3	-2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		76	0.5	1	4	77	46
Industrials Metals (index)		156	-0.3	0	-2	39	17
Agriculture (index)		55	-0.1	1	-7	57	15
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		16.1	-0.1	-0.4	0.4	-16.1	-6.7
US 10y Swaption Volatility		73.6	2.1	11.5	8.1	16.3	13.5
Global FX Volatility		6.7	0.0	-0.1	0.3	-0.9	-1.4
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		104	-1.0	0	2	-60	-16
Italy		102	-1.4	1	0	-63	-9
Portugal		60	-1.0	2	-3	-27	0
Spain		63	-1.0	1	0	-23	1

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

## Emerging Market Financial Indicators

Last updated: 7/13/2021 7:45 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	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.					
China		6.47	0.1	0.2	-1	8	1		3.1	-11	-14	-5	-16
Indonesia		14464	0.2	0.0	-2	0	-3		6.4	-2	16	-73	35
India		74	0.1	0.1	-2	1	-2		6.5	3	22	59	53
Philippines		50	0.2	-1.0	-4	-1	-4		4.3	3	7	35	67
Thailand		33	0.1	-1.1	-5	-4	-8		1.7	-4	-9	30	43
Malaysia		4.19	0.0	-0.9	-2	2	-4		3.3	2	1	70	71
Argentina		96	-0.1	-0.2	-1	-26	-12		45.1	-48	-48	-1	-1103
Brazil		5.17	1.7	-1.5	-2	4	0		8.5	11	29	327	292
Chile		744	0.6	-1.0	-3	6	-4		4.5	-11	44	187	176
Colombia		3824	0.2	-2.1	-4	-5	-10		6.7	-10	7	148	163
Mexico		19.91	-0.3	0.6	0	14	0		6.8	-12	17	97	122
Peru		4.0	0.2	-0.8	-2	-12	-9		5.8	42	72	147	218
Uruguay		44	-0.2	-0.4	-1	-1	-4		7.9	0	-1	-194	61
Hungary		301	-0.6	-0.6	-4	4	-1		2.3	-4	6	67	75
Poland		3.86	-0.5	-1.1	-3	3	-3		1.2	-8	6	41	58
Romania		4.2	-0.2	0.1	-2	3	-4		2.9	12	17	-94	15
Russia		74.1	0.5	0.5	-3	-4	0		7.0	5	12	157	130
South Africa		14.6	-1.2	-1.4	-6	16	1		9.7	6	25	-57	7
Turkey		8.60	0.5	1.1	-2	-20	-13		17.5	-10	-18	596	437
US (DXY; 5y UST)		92	0.1	-0.2	2	-4	3		0.79	-1	5	50	43

	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	7 Days	30 Days	12 M		
								basis points						
China		5142	0.2	1	-2	7	-1		209	4	-1	-30	-20	
Indonesia		6012	-1.1	-1	-1	18	1		177	1	3	-97	-23	
India		52770	0.8	0	0	46	11		154	9	10	-97	3	
Philippines		6795	-1.7	-3	-2	10	-5		106	1	10	-62	-6	
Malaysia		1520	0.4	-1	-4	-5	-7		130	4	7	-66	-5	
Argentina		64215	3.0	1	-3	49	25		1582	9	135	-675	226	
Brazil		127594	1.7	0	-1	29	7		272	9	23	-109	13	
Chile		4243	-0.1	-1	-2	3	2		149	4	-1	-67	-7	
Colombia		1298	0.4	2	3	13	-10		268	9	30	-30	53	
Mexico		49789	0.0	-2	-3	37	13		344	4	20	-171	-13	
Peru		18702	-0.6	-1	-6	12	-10		159	-3	-6	-29	30	
Hungary		47736	-0.1	0	-2	35	14		140	4	-3	-48	-9	
Poland		67578	0.6	1	2	32	19		34	-1	0	-11	6	
Romania		11996	0.2	0	4	42	22		185	3	4	-107	-18	
Russia		3869	-0.2	0	1	40	18		175	1	6	-51	-4	
South Africa		67229	-0.1	2	-1	20	13		330	0	23	-204	-54	
Turkey		1351	-0.4	-2	-8	14	-8		475	4	26	-141	28	
Ukraine		529	0.0	0	0	6	6		501	8	28	-201	8	
EM total		54	0.8	-2	-3	25	4		362	2	17	-75	24	

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

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