



- **US corporate earnings and macro data remain inconsistent with past recessions** ([link](#))
- **US Bank stocks increase despite lower quarterly earnings** ([link](#))
- **European markets gain ahead of “make-or-break Thursday”** ([link](#))
- **Markets bracing for some volatility in Italian spreads this week** ([link](#))
- **Fund flows into EMs remain negative** ([link](#))
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Upbeat start to the week as focus shifts to Europe

Global markets started the week on an upbeat note with equities extending Friday’s gains, while advanced economy sovereign yields increased and the dollar weakened. Recession fears were dialed back somewhat as investors scaled back on the expected magnitude of tightening at the Fed’s July meeting, with traders again expecting a 75bps hike. In Asia sentiment was also buoyed by reports that China’s regulator had urged lending to developers and that a temporary halt in mortgage repayments was being considered.

Key Global Financial Indicators

Last updated: 7/18/22 12:03 PM	Level Last 12m Latest	Change from Market Close					YTD	Since 23-Feb-22
		1 Day	7 Days	30 Days	12 M			
Equities		%					%	
S&P 500	3863	1.9	-1	5	-11		-19	-9
Eurostoxx 50	3523	1.3	1	2	-13		-18	-11
Nikkei 225	26788	0.5	1	3	-4		-7	1
MSCI EM	39	0.5	-4	-3	-28		-21	-19
Yields and Spreads		bps						
US 10y Yield	2.95	3.9	-4	-27	166		144	96
Germany 10y Yield	1.21	7.9	-3	-45	157		139	98
EMBIG Sovereign Spread	593	0	56	106	243		226	181
FX / Commodities / Volatility		%						
EM FX vs. USD, (+) = appreciation	49.9	0.0	1	-3	-12		-5	-6
Dollar index, (+) = \$ appreciation	107.4	-0.7	-1	3	16		12	12
Brent Crude Oil (\$/barrel)	103.3	2.1	-4	-9	40		33	7
VIX Index (% change in pp)	24.8	0.6	-1	-6	6		8	-6

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

While markets are focused on US corporate earnings season, developments across the Atlantic this week is also drawing attention. Italian PM Draghi is due to address Parliament on Wednesday to announce if he will continue governing with his current coalition. The ECB policy meeting takes place on Thursday with consensus seeing a 25bps hike and markets keenly awaiting announcements around the

ECB's new anti-fragmentation tool. Separately, scheduled maintenance of the Nord Stream 1 pipeline is set to end on Thursday, with markets closely watching to see if gas flows from Russia to Europe are resumed. Elsewhere on the central bank front, the central bank in South Africa is expected to tighten further this week, while central banks in Ukraine, Turkey and Indonesia are expected to keep rates unchanged and the central bank of Russia is expected to cut its benchmark rate. On the data front, key data releases this week include June CPI data for the UK and Japan, as well as preliminary June PMI data for the eurozone and the UK.

Mature Markets

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United States

US equities ended last week strongly, with the S&P500 up 1.9% as financials outperformed. Treasury yields were down roughly 2–3 bps, with the 2–10y spread stabilizing near -20 bps in recent days. Markets are back to pricing in 75 bps at the July FOMC meeting after briefly flirting with a 100 bps hike.

Corporate earnings and macro data remain inconsistent with historical recessions. The latest US manufacturing survey (PMI at 53), the lack of movement in the unemployment rate, and the fairly resilient earnings outlook (so far) stands in sharp contrast to previous recession periods. On average at the time of the trough in the S&P500, the unemployment rate had increased by 1.3% (in percentage points), compared to almost no change currently. Moreover, PMIs have averaged 43.6, and forward earnings per share (EPS) has fallen nearly 11% through the bottom of the equity sell off. **The divergence may reflect the unique nature of this economic cycle, or could suggest that economic data and earnings will still deteriorate significantly going forward, indicating further downside for equity prices.**

Exhibit 5: PMI Level, Unemployment Rate Increase and EPS Decrease at SPX Recessionary Price Lows...History Confirms We Are Not Currently in a Recession...

S&P 500 Price: Recession Trough Date (Monthly)	ISM Mfg. PMI Level on S&P Price Trough Date	Unemployment Rate Increase through S&P Price Trough Date	Fwd. EPS Decrease through S&P Price Trough Date
6/30/1949	31.6	2.8%	NA
8/31/1953	43.5	0.2%	NA
12/31/1957	36.8	1.5%	NA
10/31/1960	46.0	1.3%	NA
6/30/1970	51.1	1.5%	NA
9/30/1974	46.2	1.3%	NA
3/31/1980	43.6	0.7%	NA
7/31/1982	38.4	2.6%	NA
10/31/1990	43.2	0.9%	-1.3%
9/30/2001	46.2	1.2%	-10.5%
2/28/2009	36.6	3.9%	-36.4%
3/31/2020	49.1	0.9%	-11.0%
Median	43.6	1.3%	-10.8%

Still at 53
Morgan Stanley

Still at Cycle
Lows (i.e., no
change)

Still at Cycle
Highs (i.e., no
change)

US corporate earnings are off to a mixed start. 60% of companies have reported EPS above expectations, below the 5-year average of 77%, and earnings beats of 2% on average compare unfavorably to about 8.8% over the last 5 years, according to Factset. **Earnings revisions have been trending downward, with downgrades outpacing upgrades.** While downgrades have been picking up, they remain modest, and EPS forecasts 1 year ahead for the S&P500 have been relatively stable. However, historically, **periods of exceptional dollar strength have coincided with significant downward revisions, indicating further downside ahead.** A strong dollar is often associated with periods of monetary tightening or market stress that weigh on corporate earnings in aggregate, though differentiation

in sector sensitives to exchange rate moves are likely to be significant as well. The dollar is up 16% year on year.



US Bank Earnings

Citigroup beat analyst expectations for EPS in 2Q2022 (\$2.19 vs. \$1.69) driven by higher revenue from trading and its international activities compared to peers. Citigroup's stock closed 13.2% higher after the earnings release announcement. Despite stronger revenues, profits declined to \$4.5bn (27% YoY) driven by increased provisions for credit losses and operating expenses. Citigroup suspended share buybacks to build capital as its stress capital buffer is expected to increase (+100bps) 4Q22.

Wells Fargo missed analyst expectations for EPS in 2Q2022 (\$0.74 vs. \$0.80) driven by lower revenue from mortgage banking activities. WFC's stock closed 6.0% higher after the earnings release announcement. Profits declined to \$3.1bn (48% YoY) driven lower non-interest income, increased provisions for credit losses, and a venture capital related impairment. Wells Fargo did not make share buybacks in 2Q2022 and will consider several factors before announcing buybacks in the coming quarters. WFC expects its stress capital buffer to increase in 4Q22 (+10bps).

Europe

Markets started the week in risk-on mode after Friday's better-than-expected US retail sales and inflation expectations data in the US, ahead of what some describe as a *make-or-break Thursday*. European stocks gained (Stoxx Europe 600 +1.3%), the euro strengthened (+0.8% to 1.02/\$) and bond yields are up (10y bund +9bps to 1.22%). The ECB is expected to hike 25 bps on Thursday, but focus will be on further communication on the anti-fragmentation tool, and the return or not of end of gas flows after maintenance on Nord Stream 1. There are no major Eurozone data releases expected before the rate decision on Thursday.

Italian spreads were broadly unchanged this morning (+2 bps to 216 bps, after increasing 15 bps last week), but markets are bracing for more volatility this week. Italian Prime Minister Draghi is due to address Parliament on Wednesday to announce whether he will continue governing with his current coalition. PM Draghi tendered his resignation last week after one of the parties in his broad coalition, the 5-Star Movement, refused to back the government in a parliamentary confidence vote. Draghi won the confidence vote but said however that without the full backing of all his partners, his national unity government could not continue. Over the weekend, Matteo Renzi, the head of coalition party Italia Viva and a former prime minister, launched a petition for Draghi to stay and got very large support from Italian

mayors, business organizations and union leaders. They urged Prime Minister Mario Draghi to rethink his decision to resign, warning that the stability of the country was at risk. At the same time, the two center right parties in the coalition, the League and Forza Italia said that their alliance with PM Draghi had been broken and signaled that they were unwilling to support the coalition further.

United Kingdom

In the UK, attention is on the race for the conservative party leadership. During yesterday's televised debate between the five remaining contenders, there was some debate about the mandate of the BOE. Liz Truss, currently estimated to be in 3rd place said that the next government should look at other economies that had been successful in controlling inflation, in particular the bank of Japan. The FTSE 100 index gained (+1.3%) this morning while the pound strengthened (+1% to 1.197 against the dollar).

Emerging Markets

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EM equities and currencies generally gained. Asian equities rallied +1.8% on net led by financial and technology shares on easing fears about an outsized US Fed hike and China's pledges to support the economy and lending to the property sector. Hong Kong SAR (+2.7%), South Korea firmed (+1.9%), and mainland China (Shanghai: +1.6%, Shenzhen: +1.5%) climbed. Asian currencies mostly strengthened. **Sri Lanka's acting president declared a state of emergency giving him broad authority amid growing protests, the country's lawmakers are set to elect a new president later this week.** Over the weekend, IMF stated talks will resume quickly after a new government is in place, Bloomberg reported. **In Latin America, major regional currencies strengthened, while equities registered modest gains on Friday.** Amongst the regional currencies, the Chilean peso (7.1%) and the Colombian peso (2.9%) outperformed. **The \$25 bn FX intervention program announced by the Central Bank of Chile (CBC) on last Thursday kicks off today.** Under the program (which will run until Sept. 30th) the CBC will carry interventions through facilities of \$10 bn each for spot market operations and FX hedging instruments, and \$5 bn in FX swaps. For this week, these facilities for spot interventions, hedging instruments and swaps will be capped at \$1 bn, \$2.5 bn and \$600 mn, respectively. **Equities in EMEA are higher in line with broader markets with currencies mixed in a busy week for central banks.** The central bank of Turkey is expected to leave rates unchanged at 14% (Thursday). Bloomberg consensus also sees the National bank of Ukraine (NBU) leaving the key rate unchanged at 25% (Thursday), but analysts at JP Morgan expect the NBU to hike 200 bps this week in light of FX sales of about \$1 bn per week and upside surprises to inflation. The South African Reserve Bank is expected to hike 50 bps to 5.25% (Thursday) as inflation data are expected to show an increase in headline to 7.3% yoy with core inflation rising to 4.3%yoy (Thursday). The central bank of Russia is expected to cut rates 50 bps to 9% (Friday).

EM Fund Flows

EMs funds continue to witness fund outflows. EMs saw an outflow of \$2 bn in bonds last week, however, equity flows reversed after six weeks and recorded an inflow of \$600 mn. While both hard currency and local currency bond funds suffered outflows of \$1.5 bn and \$0.5 bn respectively, the magnitude of outflows in local currency bond funds was smaller. Within equity funds, EM Asia-ex Japan saw incremental investments (\$1.5 bn), while EMEA and LATAM saw small outflows. Overall, during the last week, fund flows into EMs came in at -\$1.3 bn, which took the YTD flows to -\$23.7 bn.

Exhibit 1: Weekly Cross-Asset Flows

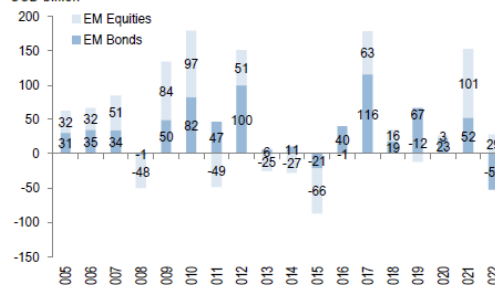
USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-1.3	-23.7
EM Bonds		-2.0	-52.4
Hard Ccy		-1.5	-28.6
Local Ccy*		-0.5	-23.8
o.w. EM ex-China		-0.3	-9.6
o.w. China		-0.1	-12.8
EM Equities		0.7	28.7
US HG		-1.3	-66.5
US HY		-0.1	-40.2
Global Equities		0.0	114.3
EM Bond and Equity ETFs		0.1	39.5
EM Bond ETFs		-0.7	-8.1
EM Equity ETFs		0.7	47.6
Non-resident EM flows*		-0.8	-78.9

*High frequency non-resident EM portfolio flow data where available. *Local ccy split is retail only. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

Exhibit 2: Annual EM bond and equity fund flows

USD billion



Core Inflation in Central and Eastern Europe

Analysts at JP Morgan point out that the momentum in core inflation (measured as mom rates, seasonally adjusted) slowed in several countries, mostly driven by slower momentum in core goods prices. Depending on the country, the highest inflation momentum was in April or May. The bank warns that core momentum will be only slightly weaker in the near term with yoy core inflation rates potentially peaking later in 2022 Q4. **Polish core inflation is expected to rise to 9.3% yoy in June but consensus sees monthly growth in core inflation decelerating to 0.8% mom (from 1% mom).**

China

China's banking regulator reportedly urged more lending to developers, and may consider temporary payment halt amid mortgage boycotts. The guidance by China Banking and Insurance Regulatory Commission sought to expedite home completions following recent homebuyer refusals to service mortgages on unfinished projects, according to Bloomberg. In addition, China may reportedly allow homeowners to temporarily halt mortgage payments on stalled property projects without incurring penalties. As of Friday, mortgage payment boycotts affected at least 230 projects across 80 cities. Separately, **China Vice Premier Hu urged stronger employment stabilization measures.** Hu said college graduate employment should be emphasized and supported migrant workers returning to hometowns to start businesses, Bloomberg reported. Separately, **China's central bank net added liquidity for the first time in two weeks.** The bank injected net +9 bn yuan (\$1.3 bn) via open market operations. **Equities rallied (Shanghai: +1.6%, Shenzhen: +1.5%)** with bank (+1.4%) and property shares (+2.9%) strengthening on the news about sector support after a major decline last week. Financial and property sector shares may remain under pressure if boycotts are not solved, China Merchants Bank noted.

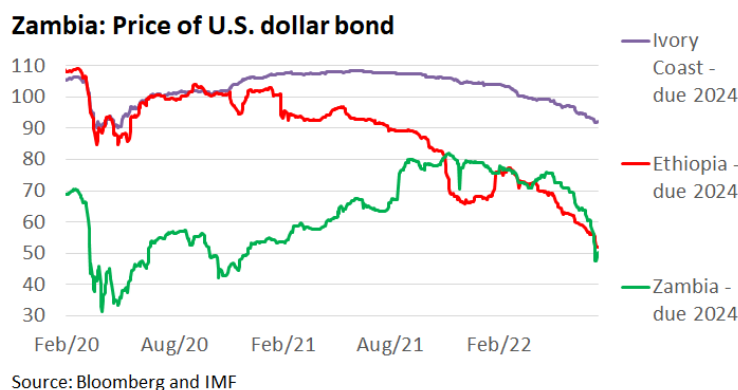
Overseas investors pulled 22 bn yuan (\$3.3 bn) from Chinese stocks via the trading link between Hong Kong and the mainland last week, the biggest outflow for the period since mid-March, Bloomberg estimated. Renminbi strengthened +0.2%, 10-year yields were little changed.

Foreign investors sold the most Chinese A-shares since March last week



Zambia

Eurobond prices edged around 2 points higher in morning trading as investors await the outcome of today's meeting of official creditors.



This monitor is prepared under the guidance of Ranjit Singh (Assistant Director), Nassira Abbas (Deputy Division Chief), Charles Cohen (Deputy Division Chief), and Antonio Garcia-Pascual (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Economist-London Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Tom Piontek (Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Yingyuan Chen (Financial Sector Expert), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Senior Financial Sector Expert), Deepali Gautam (Research Officer), Frank Hespeler (Senior Financial Sector Expert), Shoko Ikarashi (Externally Financed Appointee), Phakawa Jeasakul (IMF Resident Representative in Hong Kong SAR), Johannes S Kramer (New York Representative), Aurelie Martin (Senior Economist- London Representative), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Patrick Schneider (Financial Sector Expert), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). Javier Chang (Senior Administrative Assistant) Olga Lefebvre (Staff Assistant), and Srujana Sammeta (Staff Assistant) are responsible for the word processing and production of this monitor.

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Global Financial Indicators

7/18/22 12:04 PM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3863	1.9	-1	5	-11	-19	-9
Europe		3523	1.3	1	2	-13	-18	-11
Japan		26788	0.5	1	3	-4	-7	1
China		4293	1.0	-1	0	-16	-13	-7
Asia Ex Japan		67	0.3	-4	-2	-27	-19	-16
Emerging Markets		39	0.5	-4	-3	-28	-21	-19
Interest Rates			basis points					
US 10y Yield		2.95	3.9	-4	-27	166	144	96
Germany 10y Yield		1.21	7.9	-3	-45	157	139	98
Japan 10y Yield		0.24	0.0	-1	1	21	17	4
UK 10y Yield		2.13	4.2	-5	-37	151	116	65
Credit Spreads			basis points					
US Investment Grade		174	-2.0	3	11	82	62	31
US High Yield		561	-6.7	8	62	236	223	154
Europe IG		120	-2.3	2	12	71	72	49
Europe HY		593	-13.0	9	51	347	352	242
Exchange Rates			%					
USD/Majors		107.36	-0.7	-1	3	16	12	12
EUR/USD		1.02	0.7	1	-3	-14	-11	-10
USD/JPY		138.2	-0.3	1	2	26	20	20
EM/USD		49.9	0.0	1	-3	-12	-5	-6
Commodities			%					
Brent Crude Oil (\$/barrel)		104	2.3	-3	-6	52	38	17
Industrials Metals (index)		144	2.4	-3	-15	-9	-17	-23
Agriculture (index)		65	1.4	-3	-14	13	6	-8
Implied Volatility			%					
VIX Index (% change in pp)		24.8	0.6	-1.3	-6.3	6.4	7.6	-6.2
US 10y Swaption Volatility		122.5	0.0	-16.4	-10.3	41.8	43.5	28.2
Global FX Volatility		11.9	0.1	0.5	0.3	5.3	4.5	4.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		235	-3.4	-1	-2	131	83	-5
Italy		217	2.4	20	23	111	82	45
Portugal		117	-0.4	8	13	56	53	25
Spain		126	10.4	17	18	62	52	23

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

Emerging Market Financial Indicators

Last updated: 7/18/2022 12:07 PM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)					Since	Level		Change (in basis points)					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
	vs. USD		(+)= EM appreciation						% p.a.							
China		6.74	0.3	-0.3	-1	-4	-6	-6		2.9	-1.5	-6	-3	-17	2	0
Indonesia		14982	0.1	-0.1	-1	-3	-5	-4		7.4	-0.5	8	-10	102	100	88
India		80	-0.1	-0.7	-3	-6	-7	-7		6.3	0.0	0	9	75	0	
Philippines		56	0.1	-0.7	-4	-11	-10	-9		5.7	0.0	0	-3	165	118	68
Thailand		37	0.0	-1.2	-4	-10	-9	-12		2.5	1.5	-8	-35	90	70	32
Malaysia		4.45	-0.1	-0.6	-1	-5	-6	-6		4.0	-3.5	-13	-31	82	43	35
Argentina		128	-0.2	-1.1	-4	-25	-20	-16		67.6	13.7	-277	653	2331	1708	1969
Brazil		5.41	0.3	-2.8	-7	-5	3	-7		13.2	-4.0	7	31	381	249	166
Chile		974	7.6	-0.4	-12	-22	-13	-19		6.7	-26.2	13	6	257	124	75
Colombia		4361	3.0	1.4	-11	-13	-6	-10		10.0	-21.0	70	86	419	354	207
Mexico		20.37	0.8	1.8	-1	-1	1	-1		8.9	-4.5	5	-30	192	134	102
Peru		3.9	0.0	0.1	-5	1	3	-4		8.4	10.3	47	#VALUE!	284	254	244
Uruguay		42	-0.7	-4.4	-5	4	6	0		11.4	0.0	38	49	355	270	327
Hungary		397	0.2	2.2	-5	-23	-18	-19		8.9	3.0	50	46	622	436	406
Poland		4.70	0.9	1.7	-6	-17	-14	-14		6.1	-2.5	14	-145	467	261	224
Romania		4.9	0.7	1.1	-3	-14	-11	-10		9.0	-3.7	11	8	605	422	389
Russia		57.1	-0.1	9.5	-3	31	32	43		8.3	-3.6	20	-8	87	-52	-293
South Africa		17.1	-0.2	0.0	-6	-15	-7	-12		9.4	6.5	14	56	212	193	177
Turkey		17.49	-0.7	-0.6	-1	-51	-24	-21		18.9	0.0	-6	-74	149	-541	-351
US (DXY; 5y UST)		107	-0.7	-0.6	3	16	12	12		3.07	3.2	1	-28	229	180	116

	Equity Markets								Bond Spreads on USD Debt (EMBIG)							
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)			YTD	Since 23-Feb-22	
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M			Last 12m	Latest	7 Days	30 Days	12 M			
								basis points								
China		4293	1.0	-1	0	-16	-13	-7		209	3	18	0	6	1	
Indonesia		6659	0.1	-1	-4	10	1	-4		239	29	43	57	74	54	
India		54521	1.4	0	6	3	-6	-5		213	3	39	63	81	59	
Philippines		6269	1.2	-2	-1	-6	-12	-15		183	31	46	70	82	46	
Thailand		1545	0.7	-1	-1	-2	-7	-9		0	0	0	0	0	0	
Malaysia		1430	0.8	0	-2	-6	-9	-10		147	12	22	14	30	14	
Argentina		104223	3.7	-2	20	65	25	14		2762	108	647	1183	1082	1025	
Brazil		96551	0.4	-4	-3	-23	-8	-14		385	29	52	108	74	54	
Chile		5092	-0.9	0	0	23	18	16		199	30	31	47	59	25	
Colombia		1274	0.1	-5	-12	0	-10	-16		474	51	95	202	126	82	
Mexico		47076	0.7	-1	-2	-6	-12	-8		483	45	63	132	151	113	
Peru		17834	0.5	-4	-8	-3	-16	-24		227	33	33	65	77	37	
Hungary		40066	0.8	2	2	-17	-21	-16		262	38	30	120	138	109	
Poland		52592	1.9	-3	0	-22	-24	-16		-23	-91	-115	-60	-55	-39	
Romania		12144	0.9	0	0	1	-7	-8		365	41	70	174	172	133	
Russia		2094	-0.7	-3	-11	-44	-45	-32		3411	-577	938	3228	3234	2897	
South Africa		66822	2.6	-1	2	0	-9	-11		569	56	124	229	214	180	
Turkey		2437	2.3	1	-4	78	31	21		795	64	134	325	217	232	
Ukraine		519	0.0	0	0	-1	-1	0		6524	857	2818	6020	5765	5051	
EM total		39	1.8	-4	-3	-28	-21	-19		498	41	79	132	111	40	

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

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