



- Changing US election dynamics could impact bond markets ([link](#))
- Chinese currency extends depreciation ([link](#))
- Japanese Yen weakens to new multi-decade low ([link](#))
- US equity rally remains within historical bounds ([link](#))
- French-German spreads continue to tighten on election optimism ([link](#))
- Investment grade bond sector in US sees surge of new issuance ([link](#))

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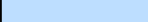

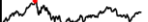
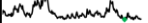
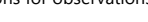
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## Markets cautiously optimistic as US stocks set new record

Stocks in Europe were up this morning after the S&P 500 closed above 5500 for the first time in history, registering its 32<sup>nd</sup> record close of the year. The French CAC-40 equity index made solid gains on hopes that an electoral coalition can achieve a more moderate outcome in next Sunday's final round of voting. However, US equity index futures were flat to slightly lower ahead of the July 4 holiday, with the stock market scheduled for an early close at 1pm later today rather than the usual 4pm close. Dollar strength continues to be a major market theme, with the yuan and Yen extending their weakening trends. Credit spreads in the euro area tightened on optimism about Sunday's election in France. The ADP US jobs report was slightly weaker than expected, giving Treasuries a bit of a bid, but the impact was minor. The ADP report has a low correlation with the all-important non-farm payrolls report due on Friday.

Key Global Financial Indicators

Last updated: 7/3/24 8:01 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		5509	0.6	1	4	24	15.50
Eurostoxx 50		4974	1.4	1	-1	13	10
Nikkei 225		40581	1.3	2	4	21	21
MSCI EM		43	0.3	1	1	7	6
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.43	0.2	10	5	58	55
Germany 10y Yield		2.63	2.4	18	5	19	60
EMBIG Sovereign Spread		398	2	2	18	-34	14
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		45.7	0.0	0	-2	-7	-5
Dollar index, (+) = \$ appreciation		105.6	-0.1	0	1	3	4
Brent Crude Oil (\$/barrel)		86.4	0.1	1	10	16	12
VIX Index (% change in pp)		12.2	0.1	0	-1	-1	0

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

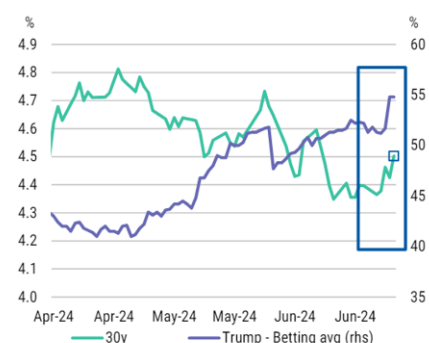
## Mature Markets

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### United States

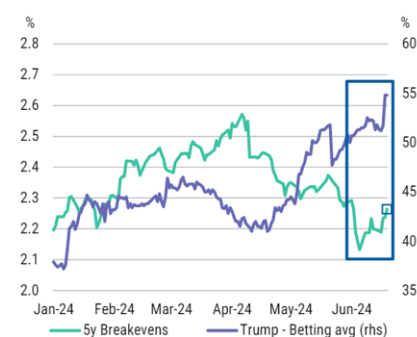
**The changing dynamics of the US election could have an impact on the bond market and inflation expectations.** As the perceived odds in betting markets of former President Trump winning re-election have increased, both long term Treasury yields and inflation breakevens have also moved higher. There is a growing expectation of a Red wave, with the Republican Party winning the Presidency, the Senate, and the House. A second Trump administration is expected to pursue tariff policies that lead to higher inflation and higher interest rates, as well as the renewal of the unfunded 2017 tax cuts, which would make the budget deficit worse. There is also a view that the independence of the Fed could be threatened, which would also be negative for interest rates and inflation expectations.

**Exhibit 13: 30y yields vs. probability of President Trump winning**



Source: Bloomberg, Morgan Stanley Research

**Exhibit 16: 5y breakevens vs. betting market probabilities of a President Trump win**



Source: Bloomberg, Morgan Stanley Research

**The ongoing US equity rally is still within historical bounds, suggesting that further rallies are possible.** The S&P 500 is up 85% since 2019 but previous bull markets were even bigger. Bloomberg data show that the index shot up by 220% during the five years of the dotcom bubble that ended in 2000, or 238% during a five year period in the 1920s. The index's price-earnings ratio remains well below its peak during the dotcom bubble. Although some analysts

have become worried that a small number of stocks are driving most of the moves in the index, the breadth of the market is much better than it was in the dotcom era. 70% of stocks in the S&P 500 are trading above their 200-day moving averages, compared to 35% at the dotcom peak. Analysts at Société Générale estimate that the index could rise another 22%, based on historical precedent.

**Not Near Peak**  
S&P 500 forward P/E today is still well below top of Tech Bubble



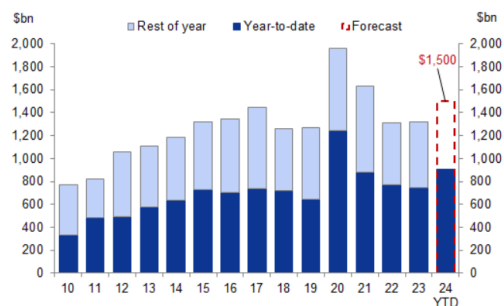
Source: Bloomberg

### The US investment grade (IG) corporate bond market has seen a surge new of issuance in 2024.

Companies in the IG sector have sold almost \$920 bn of bonds so far. Several banks have increased their volume estimates for the year in response. For example, Goldman predicts total issuance of \$1.5 tn this year, up from its earlier estimate of 1.325 tn, and net issuance of \$600 bn from the earlier estimate of \$500 bn. Demand has been very strong among investors and long term funding costs remain relatively attractive for issuers. Many company Treasurers are issuing bonds now in expectations of higher funding costs in 2025. Much of the debt (\$109 bn) was used to finance mergers and acquisitions, on pace to be the most since 2018, Goldman data show.

**Exhibit 4: We have moved up our 2024 full year IG gross supply forecast to \$1.5 trillion from \$1.325 trillion**

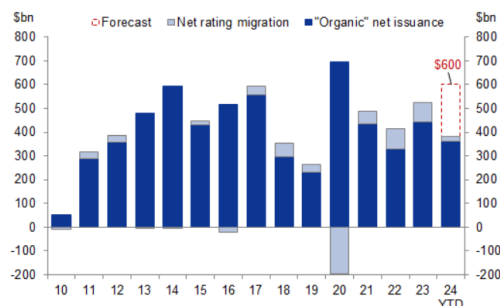
Annual gross issuance in the USD IG primary market



Source: Dealogic, Goldman Sachs Global Investment Research

**Exhibit 5: We are also moving up our net supply forecast to \$600 billion from \$500 billion**

Annual net issuance in the USD IG market broken out by organic vs. rating change net supply



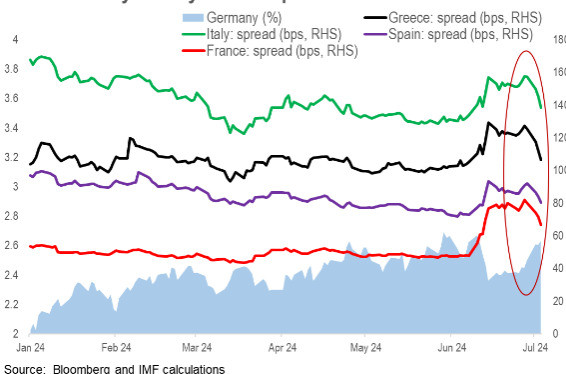
Source: Bloomberg, Goldman Sachs Global Investment Research

## Euro Area

European equities gained (Stoxx 600 index +0.9%) with the technology sector (+2%) outperforming, due to optimism on Fed easing following comments from Chair Powell. Most sectors were trading in the green, with the banking sector up (+1.3%). French equities (+1.6%) were outperforming. The euro was marginally stronger against the dollar this morning (+0.1%, trading at around 1.0759).

The French-German 10y spread continue to tighten ahead of the second round of the French elections on Sunday July 7, with contacts pointing to lower odds of an absolute majority for the Rassemblement National (RN) party. Commerzbank analysts think the move was likely driven by fading election tail risk with the strategic withdrawals of certain Parliamentary candidates reducing the possibility of an absolute majority for RN, but Citibank analyst highlighted the risk of a hung government. Yields eased yesterday on 10y French (-3bps) and Italian (-5bps) bonds, resulting in the French-German 10y spread closing tighter for the third consecutive day. This morning the 10y French-German spread was a further 4bps tighter at around 67bps, from roughly 80bps at the end of last week. Italian spreads were 6bps tighter this morning at around 139bps. Rabobank analysts caution that the narrowing of spreads should not be interpreted as an 'all clear' and expect rewidening to occur towards the weekend. In the meantime, UBS analysts highlight that the extent to which a future government will deliver the fiscal consolidation implied by the new fiscal rules remains unclear.

**Euro area: 10y Bund yield and spreads**



Source: Bloomberg and IMF calculations

## United Kingdom

The market is seen to be complacent ahead of the UK election on Thursday. Polls ahead of tomorrow's general election continue to indicate that the Labor party is on track to win a comfortable majority. BofA analysts, however, argue that the steady polls downplay the risk of an unexpected outcome. Sterling volatility appears to be underpriced relative to other countries with elections. Meanwhile, Bloomberg analysts highlight that short-term FTSE 100 volatility is also hovering at low levels. Relatedly, the FTSE 100 and the FTSE 250 outperformed most euro-area bourses in Q2 according to Bloomberg analysts, with strategists partly attributing the outperformance to safe-haven flows against a backdrop of election risk elsewhere.

**Exhibit 1: GBP vs EUR idiosyncratic vol\***

GBP idiosyncratic vol has been subdued un run-up to election

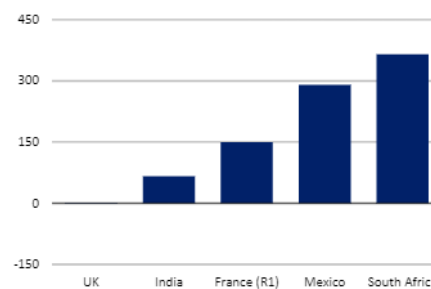


Source: BofA Global Research, Bloomberg. \* defined as spread over 1mth G10/USD vol

BofA GLOBAL RESEARCH

**Exhibit 2: 3mth change in 1mth implied vol from election date**

UK vol barely changed over the past 3mth



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

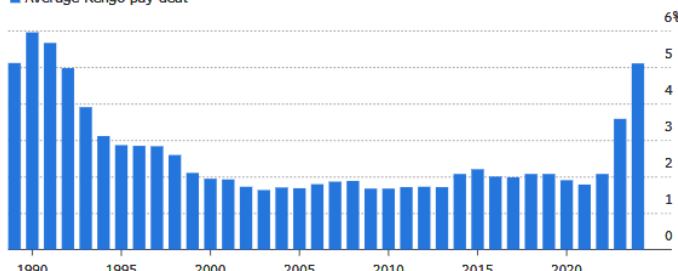
## Japan

The yen continued to depreciate, reaching a new record low of 161.94. The Topix equity index closed 0.5% higher, just 0.4% away from its all-time peak, as financials continued to be a major driver. Meanwhile, Vice FM Kanda flagged the potential risks of credit rating downgrade in Japan as yields rise, Bloomberg reported. While the risk is not imminent, he warned that the process can proceed at a rapid pace, drawing from past experiences. Long-end JGB yields rose (10-year: +1.7 bps; 30-year: +1.1 bps). Separately, **Moody's put Norinchukin Bank** (currently rated at A1) **on watch list for a possible downgrade**, following S&P's move days ago to cut its outlook to negative, citing the bank's large unrealized losses on bonds, and its higher overseas funding costs. Separately, **Japan's annual pay negotiations concluded with 5.1% rise**, the most in 33 years, though falling short of initial figure of 5.28%.

### Japan's Biggest Wage Raises Since 1991

Final tally of Japan's largest union group showed pay deals averaged above 5%

Average Rengo pay deal



Source: Japanese Trade Union Confederation, known as Rengo

Bloomberg

## Emerging Markets

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**EMEA equities traded higher today, while currencies were mixed.** The Polish zloty appreciated (+0.2%) against the euro to trade at 4.29/€, ahead of the central bank's decision later today, where the policy rate is expected to remain unchanged at 5.75%. **Asian stocks advanced after the US S&P 500 hit a new high (EM Asia: +1.1%), with Philippine (+1.4%) and Taiwanese (+1.3%) stocks outperforming.** Most Asian currencies traded in a tight range as investors stayed cautious ahead of US labor market data and the Fed's meeting minutes. **Most Latam equity markets were down, although currencies held steady.** Chile raised \$1.7 bn by issuing EUR-denominated social bonds.

## Emerging Market Credit

**EM sovereign creditworthiness has steadily improved in 1H2024** with aggregated scores recovering to the average levels of the past ten years. Based on a measure estimated by Goldman Sachs—Sovereign Risk Score (SRS)—EM sovereign creditworthiness was severely affected first by the 2020 COVID-19 pandemic, and then again by the Russia-Ukraine war starting in 2022 (LHS figure). However, in 1H2024, all but five of the 34 EMs in the sample have shown improvements driven by higher external and fiscal scores. Among the sample countries, Argentina saw the largest increase in overall scores in 1H2024,

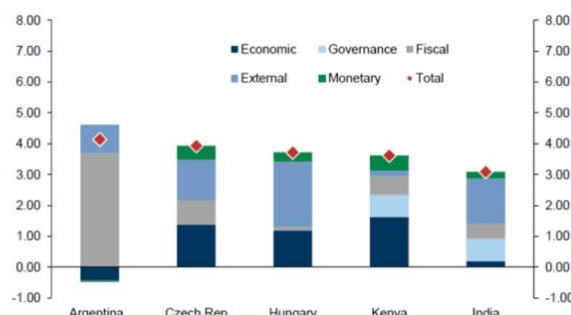
followed by the Czech Republic, Hungary, Kenya, and India (RHS figure). For the 5 countries that saw deterioration in SRS, the worsening of fiscal score was the primary driver.

**Credit Scores Have Reverted to their 10-yr Average**  
SRS Z-Score (Q3 2013 - Q2 2024)



Note: SRS is based on the weighted average score of 18 fundamental economic variables which have been identified as being key drivers of sovereign creditworthiness. These variables are further classified under five heads: economic, governance, fiscal, external and monetary.  
Source: Goldman Sachs Global Investment Research

**Argentina's Fiscal Score Leads Improvements**  
GDP-Weighted Average Change in Score (H1 2024 v. H2 2023) - Top 5 Performers



## China

**The People's Bank of China (PBC) set the RMB fixing weaker than 7.13 for the first time in seven months.** With the daily fixing's weakening trend remaining intact, traders appear to be more confident about the perception that PBC intends to guide RMB weaker gradually, which has reinforced their carry trade strategies with RMB as a funding currency. This can be seen from the Bloomberg data that the implied volatility of RMB has been moving sideways, a sign that investors are not hedging for the risk of a sudden appreciation of RMB. Onshore RMB was little changed, while offshore CNH depreciated past 7.31 for the first time this year. Bloomberg analysts expect the next natural resistance level for CNH to be near 7.34. On the data front, the June Caixin services PMI missed market expectation (51.2 versus expected 53.4), indicating the pace of expansion in services activities slowed to an eight month low. Chinese equities declined (CSI 300: -0.2%).

**Carry On**  
Dollar-yuan traders are cruising with yield play



Source: Bloomberg

CNH Currency (Offshore Deliverable CNY) CNH vs one month vols Daily 28FEB2024-03JUL2024

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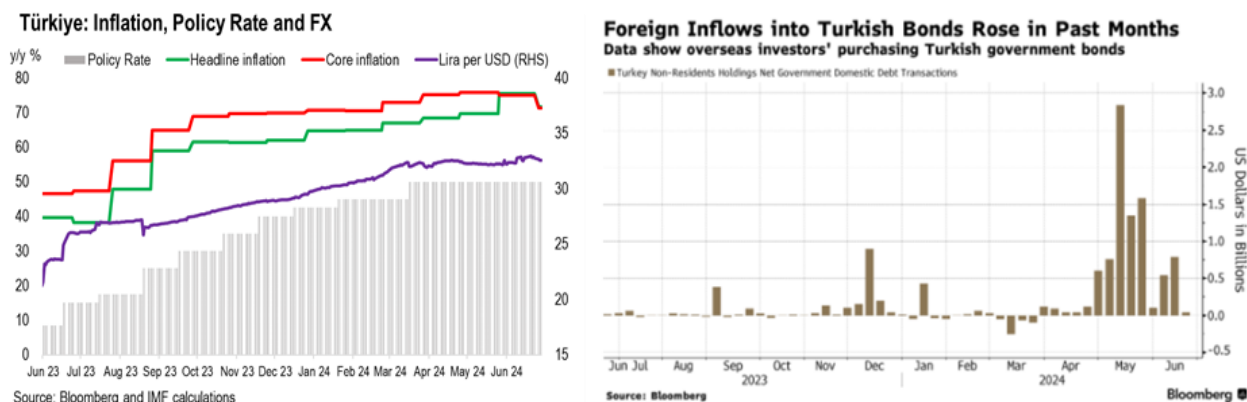
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## Türkiye

**The lira was unchanged even though CPI eased more than expected (71.6% yoy vs. 72.6%).** On a monthly basis, inflation declined in June to 1.6% m/m (vs est. 2.2%) from 3.3% m/m in May, reportedly the lowest figure in a year while still far from the central bank's target range (5% y/y +/-2%). PPI data were also lower. Analysts expect the central bank to keep its policy rate steady at 50% in Q3, while using alternative



measures such as reserve requirements to fight inflation. Turkish lira-denominated government bonds rallied today with yields on two-year and ten-year notes falling respectively by 42bps (to 36.78%) and by 43bps to (25.9%). Deutsche Bank has a constructive view on Türkiye, arguing that the central bank's "strong commitment" to orthodox policies makes the carry trade on local currency bonds attractive amid a more stable lira.



*This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), 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-New York Representative), Benjamin Mosk (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Mustafa Oguz Caylan (Research Officer), 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), Natalia Novikova (IMF Resident Representative in Singapore), Sonal Patel (Senior Financial Sector Expert-London Representative), Silvia Ramirez (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Sammeta (Administrative Coordinator) are responsible for the word processing and production of this monitor.*

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## Global Financial Indicators

7/3/24 8:02 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5507	0.6	1	4	24	15
Europe		4974	1.4	1	-1	13	10
Japan		40581	1.3	2	4	21	21
China		3463	-0.2	0	-4	-11	1
Asia Ex Japan		73	0.6	1	2	8	9
Emerging Markets		43	0.3	1	1	7	6
Interest Rates			basis points				
US 10y Yield		4.43	0.2	10	5	58	55
Germany 10y Yield		2.63	2.4	18	5	19	60
Japan 10y Yield		1.10	1.5	7	3	70	49
UK 10y Yield		4.24	-1.2	10	2	-20	70
Credit Spreads			basis points				
US Investment Grade		125	-0.8	-4	9	-23	-8
US High Yield		360	1.9	-2	9	-73	-25
Exchange Rates			%				
USD/Majors		105.63	-0.1	0	1	3	4
EUR/USD		1.08	0.1	1	-1	-1	-3
USD/JPY		161.9	0.3	1	4	12	15
EM/USD		45.7	0.0	0	-2	-7	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		86.4	0.1	2	10	20	14
Industrials Metals (index)		153	1.5	2	-5	8	7
Agriculture (index)		58	0.0	1	-5	-14	-8
Implied Volatility			%				
VIX Index (%, change in pp)		12.2	0.1	-0.4	-0.9	-1.4	-0.3
Global FX Volatility		7.5	0.0	-0.1	0.6	-0.8	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		109	-3.3	-16	6	-18	5
Italy		142	-3.4	-12	12	-28	-26
Portugal		64	-2.7	-11	5	-12	0
Spain		81	-2.7	-7	9	-19	-16

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

## Emerging Market Financial Indicators

Last updated: 7/3/2024 8:05 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		7.27	0.0	-0.1	0	0	-2		2.2	0.5	0	-6	-53	-34	
Indonesia		16371	0.2	0.3	-1	-8	-6		7.1	-0.6	1	23	88	64	
India		84	0.0	0.1	0	-2	0		7.3	-2.2	-1	-5	(12.9)	9	
Philippines		59	0.1	0.2	0	-6	-6		5.4	12.2	-3	-12	-42	-22	
Thailand		37	0.2	0.5	0	-5	-7		2.8	1.3	2	-7	2	8	
Malaysia		4.72	0.0	-0.1	0	-1	-3		3.9	-0.4	2	-2	1	15	
Argentina		914	-0.1	-0.5	-2	-72	-12		44.3	-4.5	50	398	-5572	-4209	
Brazil		5.66	0.3	-2.5	-7	-15	-14		12.2	-20.4	2	29	147	177	
Chile		946	-0.1	-0.5	-4	-16	-7		5.4	0.0	0	20	39	53	
Colombia		4121	0.6	-0.5	-6	1	-6		8.4	0.0	2	-10	95	72	
Mexico		18.28	-0.1	0.3	-3	-7	-7		9.5	0.7	10	5	146	109	
Peru		3.8	0.6	-0.1	-2	-5	-3		7.1	0.0	-6	8	35	43	
Uruguay		40	-0.6	-1.9	-3	-7	-3		9.7	1.2	22	48	7	14	
Hungary		367	0.1	1.1	-3	-7	-5		6.6	3.0	14	3	-33	86	
Poland		4.00	0.3	1.0	-2	2	-2		5.2	-2.0	12	1	26	76	
Romania		4.6	0.1	0.7	-1	-2	-3		6.7	-0.7	-1	3	-2	45	
Russia		88.4	-0.6	-0.2	1	1	1								
South Africa		18.5	0.7	-1.6	0	1	-1		9.3	-3.0	10	-51	-35	15	
Türkiye		32.58	-0.1	0.8	-1	-20	-9		27.5	-50.0	-113	8	1087	77	
US (DXY; 5y UST)		106	-0.1	-0.4	1	3	4		4.41	1.3	6	0	22	56	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M	YTD	
								basis points						
China		3463	-0.2	0	-4	-11	1		139	-1	7	-43	-19	
Indonesia		7197	1.0	4	1	8	-1		105	-4	8	-31	9	
India		79987	0.7	2	11	22	11		100	1	9	-27	-16	
Philippines		6450	1.4	2	1	-1	0		89	-2	3	-21	9	
Thailand		1295	0.5	-2	-3	-15	-9		0	0	0	0	0	
Malaysia		1615	1.1	2	0	16	11		86	-1	8	-3	1	
Argentina		1634019	2.5	4	-2	274	76		1539	91	193	-516	-374	
Brazil		124787	0.1	2	2	4	-7		233	-1	20	-18	18	
Chile		6385	-0.3	-2	-3	9	3		118	-7	2	-10	-7	
Colombia		1384	0.2	1	-1	22	16		315	1	12	-57	44	
Mexico		51948	-1.8	-1	0	-5	-9		318	2	20	-55	-16	
Peru		29601	-0.4	-1	-1	32	14		144	-4	-6	-16	0	
Hungary		71545	0.1	1	3	42	18		151	-8	6	-59	2	
Poland		87826	0.4	0	1	29	12		102	-2	7	-31	5	
Romania		18255	0.1	0	4	46	19		189	-8	12	-36	-11	
South Africa		80653	1.5	2	4	6	5		318	-5	-20	-94	10	
Türkiye		10495	0.5	0	-1	74	40		290	-10	12	-190	-24	
EM total		43	0.2	1	1	7	6		412	26	42	22	67	

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

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