GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

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LEAD EDITOR: JEFF WILLIAMS

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No reprieve for bonds even as tariff delay supports equity markets

While equity markets are generally shrugging off the latest tariff news, sovereign bond yields are moving higher as fiscal risks and concerns over supply continue to weigh. Yesterday, president Trump sent letters via social media to trading partners outlining higher tariff rates should deals not be reached. That news was balanced, however, by a further extension of the imposition of reciprocal tariffs until August 1, giving more time to negotiate, and also increasing complancy among many market participants as the deadline continues to be pushed back. Yields on sovereign bonds meanwhile are reacting more strongly to continued fiscal concerns. The 30-year yield on Japanese government bonds rose 9 bp today as political worries persist and investors look to the 20-year auction scheduled for Thursday. The 30-year gilt yield is higher by 7 bp after the UK's Office for Budget Responsibilty released a report highlighting concerns over debt sustainability.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
7/8/25 8:46 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		6230	-0.8	1	4	12	6
Eurostoxx 50		5335	-0.1	1	-2	7	9
Nikkei 225		39689	0.3	-1	4	-5	-1
MSCI EM		48	-1.4	0	2	10	15
Yields and Spreads					bps		
US 10y Yield		4.43	4.8	19	-8	15	-14
Germany 10y Yield		2.69	4.7	12	11	15	32
EMBIG Sovereign Spread		303	-3	-19	-15	-89	-22
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		46.2	0.1	0	1	0	8
Dollar index, (+) = $ appreciation		97.5	0.1	1	-2	-7	-10
Brent Crude Oil ($/barrel)		69.7	0.1	4	5	-19	-7
VIX Index (%, change in pp)		17.0	-0.8	0	0	5	0

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

Mature Markets

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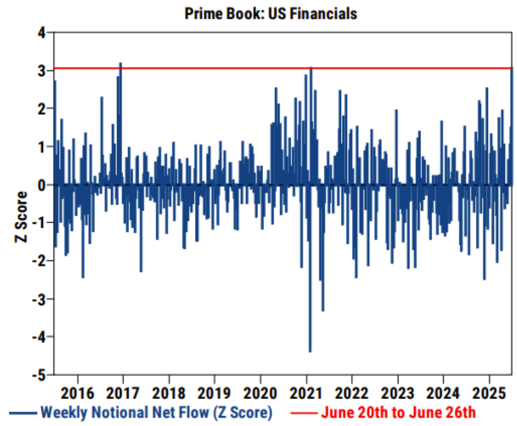
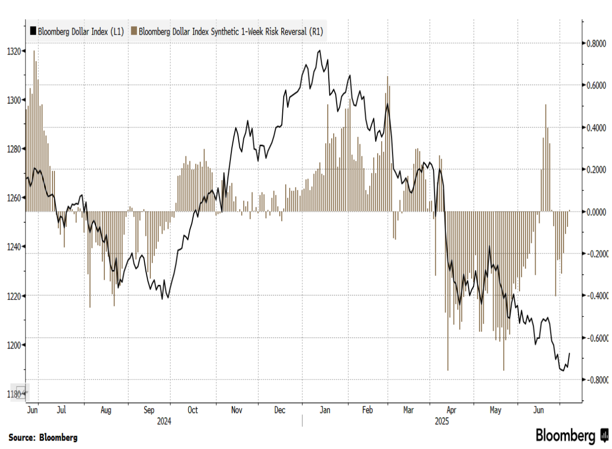
United States

Hedge funds position for potential upside in bank and financial stocks. Recent data from Goldman Sachs' prime brokerage indicates that hedge funds' net purchases of US financial shares reached their highest level in nearly a decade at the end of June (*chart below*). Unlike previous months characterized by short covering, recent activity reflects a shift toward momentum-driven positioning, particularly in response to the recent tech stock rally. The accelerated pace of equity accumulation suggests growing investor confidence in the sector's medium-term outlook, according to analysts. The sentiment is also reflected in the call-to-put ratio on the largest financial-focused ETF, the Financial Select Sector SPDR Fund (XLF), which has risen near a four-month high. Analysts cite potential regulatory easing—specifically, anticipated revisions to bank capital and leverage requirements—as a key forward-looking catalyst, alongside expectations of monetary policy accommodation by the Fed. Nonetheless, markets remain wary of near-term earnings prospects: following nine consecutive quarters of earnings growth, the financial sector is projected to post flat or marginally negative results in the current reporting season, according to Bloomberg. The upcoming earnings releases from JPMorgan Chase, Citigroup, and Wells Fargo—scheduled for Tuesday next week—will provide critical insight into the sector's performance trajectory.

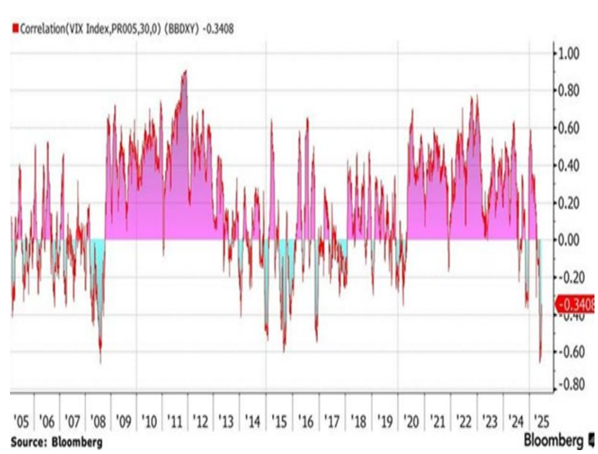


Renewed USD-VIX divergence might signal a shift in USD market perception, analysts say. Early this week, the US dollar has come under renewed pressure amid heightened trade policy uncertainty, following the reemergence of tariff-related risks due to Wednesday's tariff deadline. Recent price action suggests the dollar is exhibiting characteristics more akin to a pro-cyclical asset than a traditional safe-haven one, according to analysts. In derivative markets, the Bloomberg dollar index synthetic 1-week risk reversal has declined to -0.7, the most negative since last year (*left panel*). This indicates a marked increase in demand for short-term downside protection, consistent with a deterioration in sentiment toward the greenback. Analysts note that shifting cross-asset correlations might add complexity to the dollar outlook, with the USD maintaining a negative correlation to the VIX (-0.35), indicating a tendency to weaken during periods of heightened market volatility (*right panel*).

Bloomberg Dollar Index and 1-Week Risk Reversal



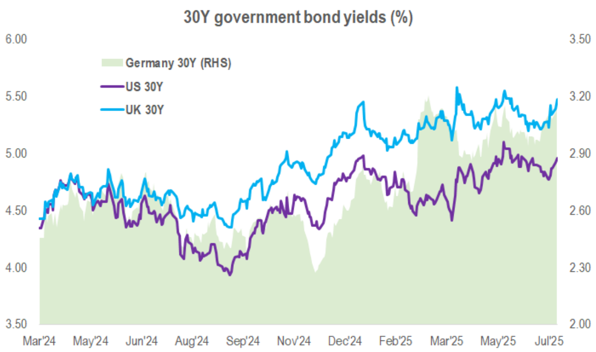
Correlation between VIX and Bloomberg Dollar Index



Euro Area

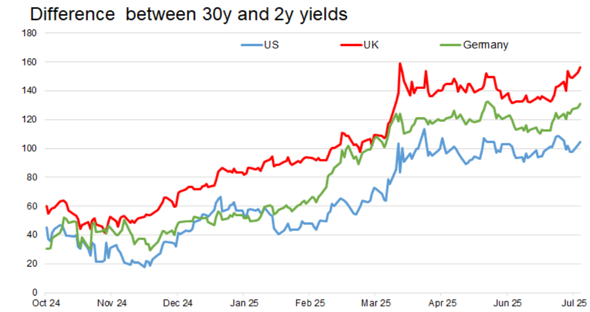
European equities were marginally lower on the latest tariff-related developments. The Stoxx 600 index was broadly unchanged, while regional bourses were mixed on reports that the US has offered an agreement to the EU that would keep a 10% baseline tariff on all EU goods, with some exceptions for sensitive sectors such as aircrafts and spirits. Meanwhile, the euro was trading firmer (+0.3%) against the dollar at 1.1743.

German bund yields were trading higher across all tenors, extending their recent bear steepening ahead of significant supply from Germany, Austria and the Netherlands. 30Y bund yields were trading 7bp higher at 3.19%, the highest since March 17, according to Bloomberg data. Some market participants attribute part of the move higher in European bond yields to spillovers from Japanese government bonds where yields have risen on elevated supply concerns and domestic political developments.



United Kingdom

OBR report highlights concern around UK's debt sustainability. The Office for Budget Responsibility (OBR) released its latest report this morning highlighting concerns around debt sustainability in the UK given pressures from an ageing population, rising healthcare costs and current policy settings. The report forecasts that UK debt will exceed 270% of GDP by the early 2070s. The report also highlighted concerns around pensions, noting that state pensions will likely increase to around 7.7% of GDP by the early 2070s while some income groups are not saving enough to provide them with adequate incomes in retirement. The report further highlights that the decline of defined benefit pensions in the UK has meant that demand for gilts has declined, which could further push up UK government borrowing costs. This morning, UK gilts were trading 3–7bp higher across the curve, in line with global peers with the 10Y UK gilt +5bp and the 30Y gilt +7bp. Pound sterling was marginally stronger against the dollar to trade at 1.3606.



Source: Bloomberg and IMF calculations

Japan

The yen extended its overnight weakening today, after President Trump said in a letter that across the-board tariffs on Japan will be increased to 25% starting August 1. The yen weakened as much as 0.3% to $/146.45 during the day before closing Asian hours at $/146.20, down 0.1%. Finance Minister Kato said he is not planning to hold talks specifically on currencies with US Treasury Secretary Bessent in the future. Prime minister Ishiba called the announcement of slightly higher US tariffs "truly regrettable" while vowing to continue to protect his nation's interests in the extended trade negotiations. Driven by continued political risks, long JGB bond yields continued to rise today, with 10-yr yield +3 bp to 1.49% and 30-yr yield +9 bp to 3.06%. Demand at today's sale of five-year notes (bid-to-cover: 3.54) was lower than the 12-month average (3.8), and investors are now focusing on the 20-year bond auction on Thursday. Helped by both the weaker yen and the tariff deadline extension, equities rose (Nikkei 225: +0.3%), with tech-related names among the biggest gainers. Japanese shares have rebounded from the April lows, reflecting investor bets that Japan will be able to reach a deal with the US that does not derail economic growth.

Emerging Markets

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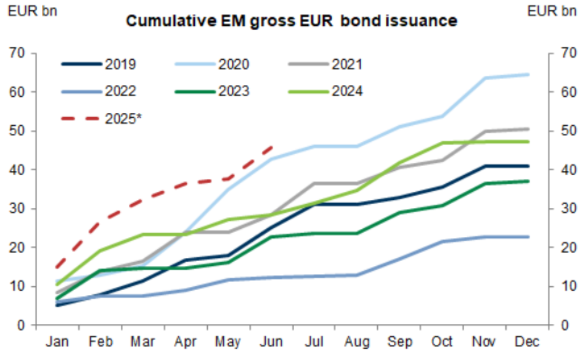
Asian currencies rebounded, led by the Philippine peso (+0.4%), as investors reacted to the tariff deadline extension and priced in flexibility in negotiations. Asian equities also rebounded (EM Asia: +0.5%), led by Hong Kong SAR (Hang Seng: +1.1%) and China (CSI300: +0.8%). **EMEA equities are mostly higher, while currencies were mixed**. In CEE, equities are mostly higher with Hungary underperforming (-0.4%), while currencies were relatively rangebound against the euro. The Romanian leu was fractionally lower ahead of the central bank decision due later today, where consensus expectations are that the policy rate will be kept unchanged at 6.50%. In Türkiye, equities reversed earlier gains to trade lower (-0.3%) while the lira was weaker (-0.1%) against the dollar. Meanwhile, the South African rand was advancing (+0.4%) against the dollar. **Market sentiment for LatAm assets soured following the release of planned US tariffs on trading partners.** Regional currencies weakened against the dollar, with the Argentine peso (-1.**7**%) and Colombian peso (-1.**5**%) seeing the largest declines. Local bond markets also came under pressure, as yields mostly rose across the region, led by +14 bp in Brazil's 10-year. Equity markets fell in tandem, with Argentina's Merval Index and Brazil's IBOVESPA declining -1.**4**% and -1.**3**%, respectively. Guatemala (Ba1/BB+/BB) tapped the primary market with an 11-year ($800 mn) and a 30-year ($700mn) dollar bond. Final pricing tightened 2**8**bp (to 6.375%) and 30bp **(**to 7%) from initial price guidance, for the 11-yr and 30-yr respectively.

EM Issuance

EUR-denominated bond issuance by EM sovereigns has risen sharply. Goldman Sachs analysts highlighted that gross EUR-denominated issuance is tracking well above historical levels (*left chart*), with year-to-date volumes estimated at around EUR 46 billion and surpassing full-year totals seen in 2019, 2022, and 2023. A large share of this supply is from Central and Eastern European (CEE) countries. However, CEE's contribution, at approximately 66%, is at the lower end of its historical range, suggesting a more diversified issuance base across EM sovereigns. The analysts also noted that EUR-denominated bonds have been well absorbed by markets and have slightly outperformed their respective benchmarks seven days post-issuance compared to USD-denominated bonds (*right chart*). This may reflect investor appetite for currency diversification and could support a continued shift toward euro issuance.

So far this year, cumulative EUR-denominated EM sovereign issuance has outpaced that of recent years

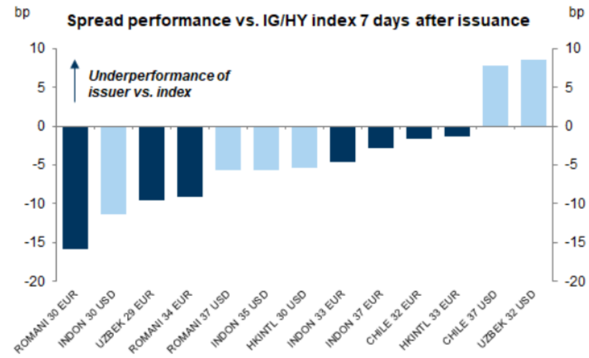


Excludes bond issued by Russia. *2025 data is year-to-date.

Source: Bloomberg, BondRadar, Goldman Sachs Global Investment Research

Newly issued Euro bonds have tended to outperform the benchmark index more than their Dollar bond counterparts so far this year

Spread performance of USD- and EUR-denominated bonds issued on the same day by the same sovereign versus their respective indices.



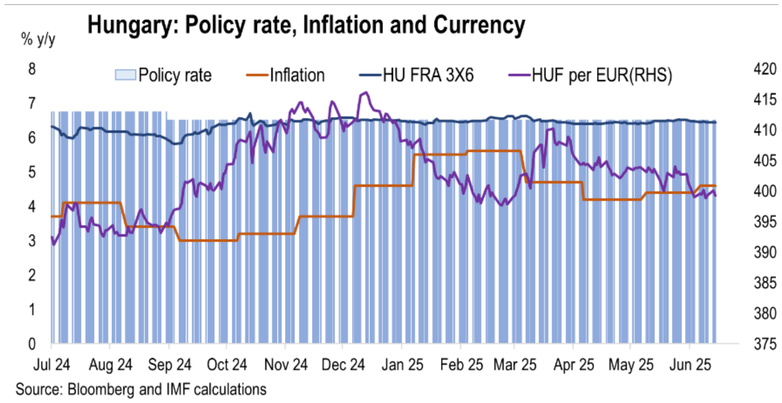
Source: Bloomberg, Goldman Sachs Global Investment Research

China

Chinese equities gained as sentiment was lifted by delays of US tariffs. Both onshore (CSI 300: +0.8%) and offshore (Hang Seng: +1.1%) equities rose after the US administration sent letters to overseas trading partners on new tariff rates. Although the executive order signed by President Trump did not mention any letter sent to China, investors view the new tariff rates and deadline extension as indicative of flexibility in trade talks, a positive for US-China negotiations. Bloomberg analysts think that the gains for ChiNext Index, focused on smaller companies, also show investor faith in continuing measures to support the domestic economy. Today, solar stocks, including Longi Green (+6.5%), traded higher on renewed speculation of consolidation and government support in the highly competitive sector. E-commerce giants Meituan (+2.7%) and Alibaba (+1.5%) also rebounded in Hong Kong, despite ongoing concerns over a price war in the food-delivery business. According to an opinion piece by Securities Times, the ongoing food delivery war in China is forcing restaurant businesses to resort to cost-cutting measures as their profit margins continue to shrink, making food safety increasingly difficult to guarantee. An analysis by Industrial Securities pointed out that the “anti-involution” campaign – aimed at curbing excessive competition and supply – should be beneficial to industries who are near bottoming out in the inventory cycle, including chemicals, textiles and glass.

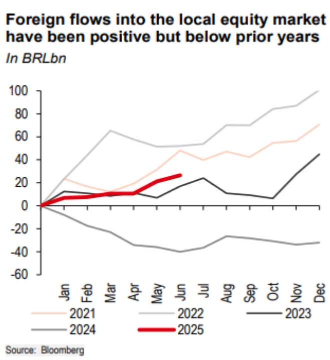
Hungary

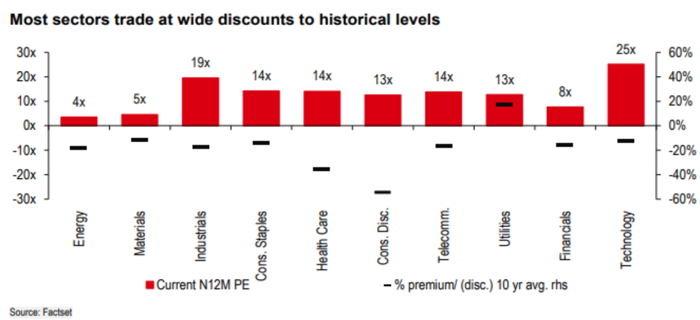
The forint edged higher (+0.3%) **against the euro this morning** (+3% YTD) after today’s data showed headline inflation rising in line with expectations to 4.6%y/y in June from 4.4%y/y in May, further diverging from the upper end of the tolerance band (+3% +/-1%). On a sequential basis, headline inflation printed at 0.1%m/m from prior 0.2%m/m. The central bank (NBH) kept the policy rate on hold at 6.50% in June, the highest level in CEE along with Romania, after inflation had slightly surprised by inching up in May. JP Morgan expects the NBH to remain hawkish at its July 22 MPC meeting, while analysts at Deutsche Bank see the NBH cutting the benchmark rate by 50bp to 6% by the end of 2025, and to a terminal level of 5.50% at the end of 2026.



Brazil

Foreign inflows into Brazil equities have supported the recent rally. According to HSBC analysts, part of the recent strength of the Brazilian equity market (Ibov index YTD price return at +16%) can be attributed to these inflows (*left chart*), especially as local investors have rotated into fixed income, attracted by the more favorable risk-return profile of domestic bonds. However, the equity flows have been selective and primarily benefiting sectors such as financials, e-commerce, and highly liquid quality names. Many of these stocks have either benefitted from higher local rates or are supported by a strong secular growth narrative. While valuations in the equity market remain "well discounted" (*right chart*), the analysts note that investor positioning in Brazil appears overweight. Additionally, the continued foreign inflows also reflect some investor view that the region is relatively insulated from global trade tensions and geopolitical risks.





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Global Financial Indicators

	Level		Change				
7/8/25 8:46 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		6,238	-0.8	0.5	4.0	11.9	6
Europe		5,335	-0.1	1.0	-1.8	7.3	9
Japan		39,689	0.3	-0.7	4.2	-4.5	-1
China		3,998	0.8	1.4	2.9	16.2	2
Asia Ex Japan		82	-1.6	-0.7	2.3	11.3	14
Emerging Markets		48	-1.4	0.0	2.5	10.2	15
Interest Rates				basis points			
US 10y Yield		4.4	5	19	-8	15	-14
Germany 10y Yield		2.7	5	12	11	15	32
Japan 10y Yield		1.5	4	10	4	40	40
UK 10y Yield		4.6	6	19	0	53	7
Credit Spreads				basis points			
US Investment Grade		126	0	-1	-4	1	6
US High Yield		330	-5	-10	-18	-27	2
Exchange Rates					%		
USD/Majors		97.5	0.1	0.7	-1.7	-7.1	-10
EUR/USD		1.17	0.1	-0.8	2.6	8.2	13
USD/JPY		146.7	0.4	2.3	1.5	-8.8	-7
EM/USD		46.2	0.1	-0.4	0.7	0.1	8
Commodities					%		
Brent Crude Oil ($/barrel)		69.7	0.1	3.8	6.0	-12.8	-4
Industrials Metals (index)		147.4	0.4	-0.7	2.6	-4.5	5
Agriculture (index)		54.2	-0.2	-0.9	-4.2	-5.0	-5
Gold ($/ounce)		3326.4	-0.3	-0.4	0.0	41.0	27
Bitcoin ($/coin)		108812.0	0.8	-1.1	2.5	93.4	16
Implied Volatility					%		
VIX Index (%, change in pp)		17.0	-0.8	0.2	0.2	4.6	-0.4
Global FX Volatility		8.4	0.0	-0.3	-0.2	1.3	-0.8
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		69	0	-2	-1	-34	-16
Italy		85	0	-2	-8	-50	-30
France		68	0	0	1	5	-15
Spain		62	0	-2	4	-15	-8

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

Emerging Market Financial Indicators

Last updated: 7/8/2025 8:47 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		7.18	0.0	-0.2	0.0	1.3	1.7		1.7	0	-3	-5	-49	0
Indonesia		16206	0.2	0.0	0.5	0.3	-0.5		6.5	-1	-8	-15	-43	-47
India		86	0.2	-0.2	-0.1	-2.6	-0.1		6.8	0	6	-5	-48	-58
Philippines		56	0.6	0.0	-1.0	3.8	2.9		4.8	0	1	-9	-60	-3
Thailand		33	0.3	-0.2	0.5	12.0	5.6		1.7	-3	-2	-20	-111	-65
Malaysia		4.24	-0.1	-1.0	-0.2	11.0	5.5		3.4	0	-7	-8	-42	-37
Argentina		1262	-1.7	-4.6	-6.1	-27.3	-18.3		33.3	73	81	508	-1360	412
Brazil		5.45	0.6	0.1	1.9	0.3	13.2		13.8	9	21	-43	200	-210
Chile		943	0.0	-1.5	-0.7	-0.3	5.7		5.5	0	-2	-10	-55	-23
Colombia		4044	-1.4	1.1	2.5	0.1	9.0		12.1	8	-2	-27	128	23
Mexico		18.69	-0.1	0.3	1.9	-3.6	11.5		9.2	3	4	0	-87	-110
Peru		3.6	-0.4	-0.6	2.0	6.3	5.4		6.4	-1	-2	-25	-67	-26
Uruguay		40	-0.3	-0.9	3.0	-0.7	8.4		8.8	-5	-10	-27	-86	-89
Hungary		341	0.2	-0.8	3.2	7.0	16.6		6.6	0	-3	-11	-12	20
Poland		3.62	0.2	-0.6	3.3	8.8	14.0		4.9	5	-13	-26	-68	-71
Romania		4.3	0.0	-0.7	2.0	6.2	11.0		7.2	1	-11	-20	71	-3
Russia		78.0	0.7	0.6	1.4	12.3	45.5							
South Africa		17.8	0.5	-1.0	-0.3	1.9	6.0		10.2	10	-9	-17	-90	-30
Türkiye		40.02	-0.1	-0.5	-1.8	-18.3	-11.7		31.7	49	40	-203	417	197
US (DXY; 5y UST)		98	0.0	0.7	-1.7	-7.1	-10.1		3.98	3	15	-14	-26	-40

	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		3,998	0.8	1.4	2.9	16.2	1.6		107	-2	4	-35	11
Indonesia		6,904	0.1	-0.2	-2.9	-5.0	-2.5		84	-16	-4	-26	-7
India		83,713	0.3	0.0	1.5	4.2	7.1		98	-6	-5	-2	12
Philippines		6,434	0.1	0.2	0.4	-1.9	-1.5		72	-15	4	-20	-7
Thailand		1,116	-0.7	0.5	-1.7	-15.5	-20.3						
Malaysia		1,530	-0.5	-0.7	0.7	-5.2	-6.8		74	-3	-2	-8	4
Argentina		2,049,934	-1.4	2.8	-5.0	24.8	-19.1		707	-3	9	-705	70
Brazil		139,490	-1.3	0.5	2.5	10.2	16.0		205	-15	-9	-23	-42
Chile		8,257	-0.4	0.5	1.1	26.6	23.0		104	-11	-6	-16	-9
Colombia		1,685	-0.1	0.6	2.0	21.8	22.1		317	-27	-24	11	-9
Mexico		57,423	-1.0	0.0	-1.1	8.5	16.0		264	-13	-23	-45	-48
Peru		33,117	0.2	1.2	1.4	11.1	14.4		117	-12	-11	-27	-24
Hungary		99,238	-0.2	1.8	2.8	39.5	25.1		146	-19	3	-8	-9
Poland		105,898	0.4	1.6	6.7	20.4	33.1		98	-13	-5	-9	-14
Romania		18,662	0.2	-1.0	-0.8	1.2	11.6		204	-38	-29	12	-31
South Africa		97,811	0.5	0.9	1.5	21.1	16.3		291	-14	-2	-15	-2
Türkiye		10,002	-1.0	-0.8	5.4	-7.9	1.7		289	-20	-11	7	30
EM total		48	0.3	0.0	2.5	10.2	14.9		349	-22	-22	-52	-15

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

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