GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, JUNE 13, 2025

LEAD EDITOR: SANJAY HAZARIKA

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Lead Editor: Sanjay Hazarika

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Global markets sell off as Israel attacks Iran and oil prices surge

Israel launched attacks on Iranian nuclear sites, setting off a global market decline as oil prices surged. There are worries about oil shipments through the Strait of Hormuz, a key chokepoint for global oil supplies. JP Morgan has warned that the price of oil could hit $130 from the current level of $75 for Brent crude if the war widens. The impact on the global economy could be very severe if oil prices remain high. Many emerging markets are highly reliant on oil imports, and higher energy prices could complicate matters for global central banks who were leaning towards rate cuts on hopes that inflation is being tamed. This morning's surprising developments arrived a day after the MSCI All World Equity Index rose by more than 20% from its April low, signalling that global equities were back in a bull market. In the midst of the selloff, oil companies and defence stocks are among the few sectors to see gains. The dollar appreciated against most major currencies on safe haven buying.

Key Global Financial Indicators

Last updated: 6/13/25 7:46 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		6045	0.4	2	3	11	3
Eurostoxx 50		5284	-1.4	-3	-2	7	8
Nikkei 225		37834	-0.9	0	0	-3	-5
MSCI EM		48	0.2	2	4	13	14
Yields and Spreads					bps		
US 10y Yield		4.36	0.4	-14	-10	12	-21
Germany 10y Yield		2.49	0.7	-9	-20	2	12
EMBIG Sovereign Spread		321	4	-5	-7	-64	-4
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		45.9	-0.1	0	1	-1	7
Dollar index, (+) = $ appreciation		98.5	0.6	-1	-2	-6	-9
Brent Crude Oil ($/barrel)		74.3	7.1	12	11	-10	-1
VIX Index (%, change in pp)		20.4	2.4	4	2	8	3

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

Mature Markets

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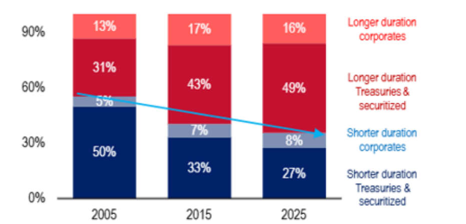
United States

The interest rate risk profile of the US bond market is at its worst level since the 1970s. The proportion of Treasury, corporate and securitized bonds outstanding in the market with longer durations and higher interest rate risk has risen to 65%, which is 20% more than the market in 2005. In addition, the duration risk of the overall bond market is not far from the all-time high seen in the 1970s. The high sensitivity to interest rate risk creates a situation where an unexpected surge in rates could be highly disruptive to the market. The situation has become more complex than in previous years because of the growing participation of exchange-traded funds (ETFs) in the US bond market, which has enabled retail investors to play a more important role. Some analysts are worried that a rush of retail outflows could test the market in ways not seen before. Others are more optimistic, contending that retail investors are actually less flight prone than hedge funds and other fast money players. They point out that the bond market experienced a major interest rate shock in 2023, but market functioning was not disrupted.

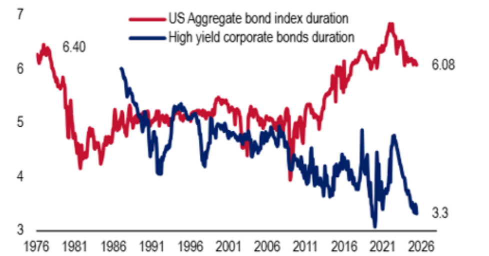
Exhibit 11: Ballast to burden, interest rate sensitive exposure is 65%
Weight of corporate bonds, Treasuries, and securitized products by duration



Source: BofA Research Investment Committee, Bloomberg; Short duration: Less than or equal to a duration of 5; Long duration = greater than duration of 5

BofA GLOBAL RESEARCH

Exhibit 13: Growing exposure to long duration assets leaves fixed income benchmarks exposed to near-record interest rate risk
Duration of US Aggregate bond index compared to HY corporates

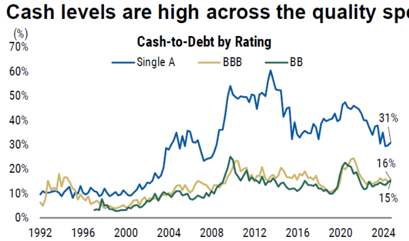


Source: BofA Research Investment Committee, Bloomberg

BofA GLOBAL RESEARCH

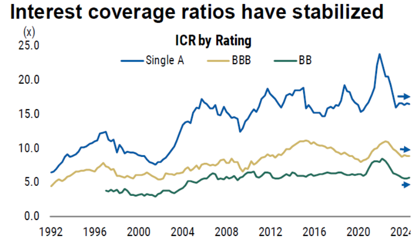
Conditions in the US corporate bond market are very appealing to investors. US companies have strong balance sheets across the credit spectrum, with both investment grade (IG) and high yield (HY) companies having large reserves of cash and a relatively low interest rate burden, as exemplified by low interest coverage ratios.

Cash levels are high across the quality spectrum



Source: Bloomberg, S&P Capital IQ, Morgan Stanley Research

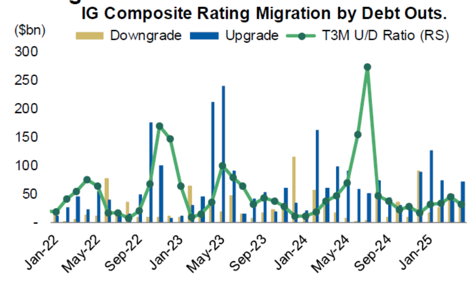
Interest coverage ratios have stabilized



Source: Bloomberg, S&P Capital IQ, Morgan Stanley Research

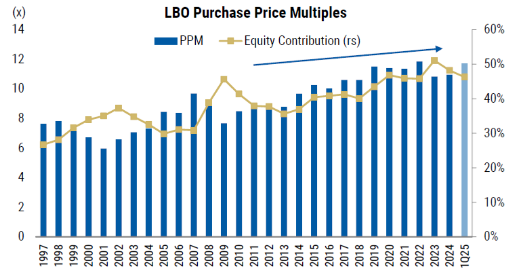
Among IG companies, there have been more upgrades than downgrades in 2025 and in the HY sector companies are contributing higher levels of their own equity to leveraged buyouts than in previous years. Default rates in the HY and leveraged loan markets remain low. In addition, high absolute yields provide an attractive return, with the Bloomberg US IG Bond Index yielding roughly 5.5% and the HY Index yielding approximately 8.5%. With the usual caveats about the risk of a tariff-driven slowdown or a resurgence in inflation, the outlook for the market seems good. Investors appear to agree, as new supply is being snapped up immediately by eager buyers. However, the lowest rated portion of the HY market is starting to lag the ongoing rally, making some analysts cautious.

IG companies seeing a lot more upgrades than downgrades



Source: ICE BofA, Morgan Stanley Research

LBOs getting done with higher equity contributions than in the past

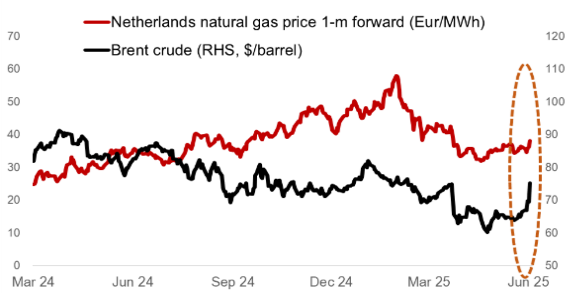


Source: PitchBook LCD, Morgan Stanley Research

Euro Area

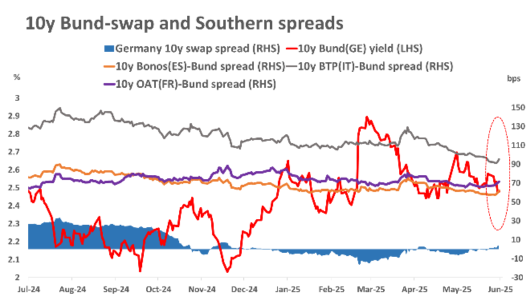
European equities are down this morning on heightened geopolitical tensions, while the euro lost ground against the dollar while European sovereign bond yields edged marginally higher amid declining real yields and rising breakeven inflation rates. The Stoxx 600 index was down by -1%, with losses broadly spread across all sectors with the exception of the energy sector. All European bourses were in the red, with Italy (FTSE MIB -1.3%) and Spain (IBEX 35 -1.4%) underperforming. Analysts at ING note that the euro is generally sensitive to geopolitical shocks that lead to higher energy prices and see today's movement as a possible trigger for the unwinding of long positions on the euro against the dollar as they view the European currency still overvalued by about 4% when considering the short- term interest rate differential between the US and Europe. European natural gas prices also surged today.

Oil and European Gas prices

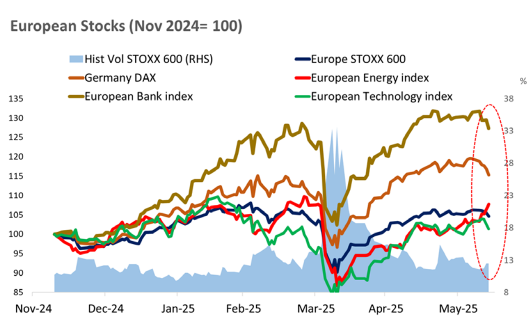


Source: Bloomberg and IMF calculations

Government bond yields were fractionally higher across tenors this morning. Today's final data confirmed that headline inflation was at 2.1% y/y in Germany in May, unchanged from April. Southern spreads were somewhat higher today amid the weaker risk backdrop, with the 10y BTP-Bund yield spread moving by 3bps higher to 95bps, while the 10y OAT-Bund spread was only fractionally wider at 71bps (+1bps). Yesterday, the Italian Foreign Minister said that it will take a decade for the country to meet NATO's 5% of GDP defense spending target.



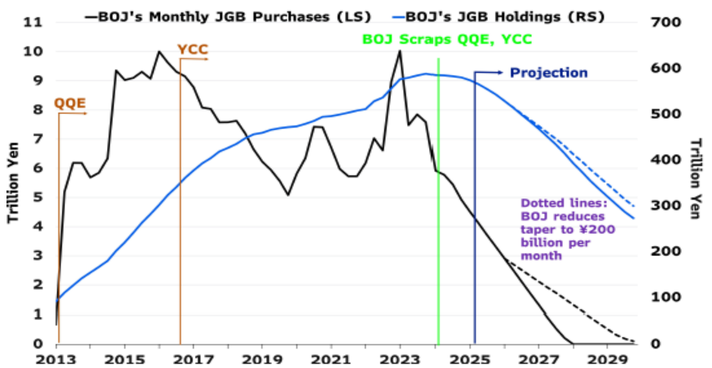
Source: Bloomberg and IMF calculations



Source: Bloomberg and IMF calculations

Japan

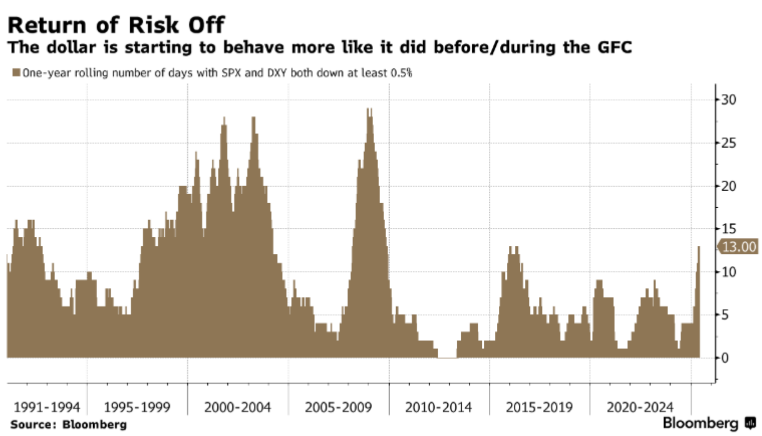
BOJ's bond purchase plan is the key focus of upcoming policy meeting. The BOJ is widely expected to keep its policy rate unchanged at 0.50% in its policy meeting next week. Instead, market participants will focus on its future bond buying plans. Most analysts expect the BOJ to remain a significant holder of JGBs in the coming years. That said, the pace of its Quantitative Tightening ("QT") could signal its thinking on the appropriate holding level over the long term. By Bloomberg's estimate, even if the current ¥400 bn monthly reduction pace is maintained through Q1 of 2027, the BOJ's JGB holdings would fall only by roughly ¥100 tn from their current level of ¥580 tn—leaving its sizable presence in the JGB market in place. Meanwhile, market participants will also look for signals from Governor Ueda on two key risks—the BOJ's inflation outlook and implications on the pace of QT, and the impact of tariff on growth, which would warrant continuing support.



Source: Bank of Japan, Bloomberg Economics. Note: The projection shown with solid lines is based on the BOJ's current tapering plan, which entails a ¥400 billion reduction in monthly JGB purchases each quarter.

Foreign Exchange Markets

The dollar had depreciated to its weakest level since 2022 prior to the Israeli attack on Iran. The dollar index fell below 98 yesterday as the euro flirted with the 1.16 level versus the greenback. The currency began depreciating early in the year, but its decline accelerated after the tariffs were announced. The initial "Sell America" trade involving the simultaneous fall in the dollar, US equities, and US Treasuries has now reversed, with stocks up 20% from their April lows and Treasury yields down from their post-tariff peak, but the dollar has been unable to recover. Contacts speculate that many foreign asset managers with investments in US markets are choosing to increase their FX hedges while hanging on to their underlying US assets, weakening the dollar. The usual rumors of large hedge fund shorts are also doing the rounds. Analysis by Bloomberg shows that the dollar is now tending to sell off when risk aversion takes hold in the market, much as it before and during the Global Financial Crisis. Usually, the dollar is the beneficiary of safe haven flows, as it was today as the Middle East conflict developed.



Emerging Markets

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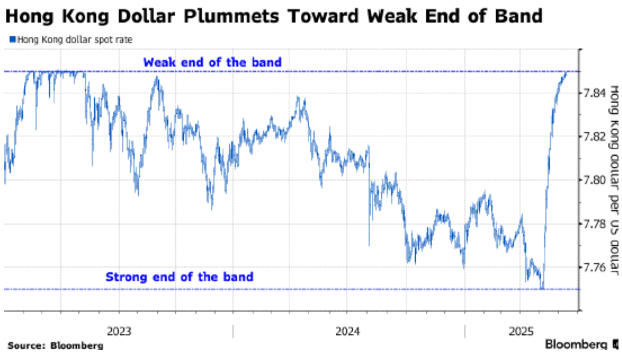
EMEA equities and currencies traded in the red this morning amid risk-off sentiment on the back the escalation of tensions in the Middle East. In CEE, equities dropped across the region with Poland (-1.7%) underperforming, while currencies were weaker against the euro with the Hungarian forint losing more (-0.3%, at HUF 402.91/€). **Asian equities suffered broad-based losses while currencies weakened following Israel's strikes on Iran.** The Korean won continued to underperform regional peers (-0.8) while the Thai baht outperformed (+0.1%). **Latin American equities were mixed, with Brazil (+0.5%) outperforming as strong retail sales boosted sentiment.** Chilean and Colombian stocks each fell 0.6%, while Mexico posted modest gains. Currencies broadly rallied with the Colombian peso (+0.7%), Brazilian real (+0.7%), and Chilean peso (+0.5%) strengthening against a weaker dollar, while the Mexican peso edged lower.

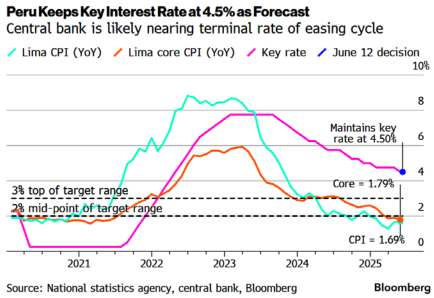
Hong Kong SAR

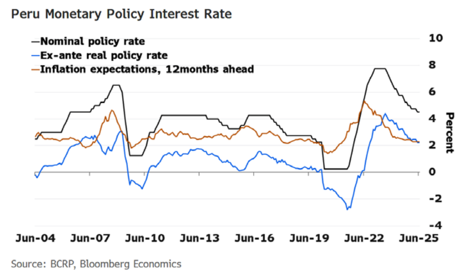
Sharp and persistent HKD weakness emboldened bets against the currency. The Hong Kong dollar has depreciated toward the weak end of its official trading band against the US dollar as local interest rates fell to a three-year low. The one-month HIBOR fell to its lowest level since 2022 this week, driven in part by record liquidity injection from the HKMA early last month, as the monetary authority sought to weaken the HKD amid a selloff in the US dollar. The intervention led to a fourfold increase in the territory's interbank liquidity. Persistent and sharp depreciation in the HKD has fueled carry trades in the USD as well as bets that the HKD would weaken further. The notional value of outstanding dollar call options – betting on the HKD to hit or weaken beyond HK$7.85/USD, the weaker end of the currency board threshold – reached around $51 bn on Thursday, about 25% more than the amount a month ago, according to data from DTCC. Meanwhile, by Goldman Sachs' estimate, long USD/short HKD forward contracts have registered record-high annualized carry trade returns. The HKD, at 7.849/USD, is at its weakest level since May 2023.



Peru

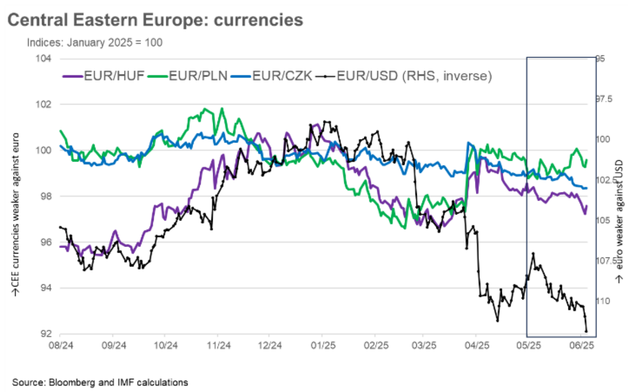
Peru's central bank held its benchmark interest rate steady at 4.5%, as expected, while it evaluates the impact of US tariffs on domestic growth. Trade uncertainty was cited as a risk to the outlook for global activity, but most domestic indicators are currently optimistic. Inflation remains subdued at 1.69% y/y, near the lower bound of the 1-3% target range, positioning Peru as one of the region's lowest-inflation economies alongside some of the lowest borrowing costs. Bloomberg analysts consider monetary conditions close to neutral and anticipate a 25bps cut during the next meeting on July 10th and markets seem to agree as 1yr dollar sovereign yields fell 9bps. Markets reacted positively as the Peruvian sol gained +0.4% and equities rose +0.2%.





Poland

Some analysts expect political developments to weigh on the polish zloty. Commerzbank analysts note that the Polish zloty—currently trading around 4.27 against the euro or roughly 0.2% stronger YTD—has recently been underperforming peers. The analysts attribute the move partly to the National Bank of Poland's unexpected pivot in May, when it cut its base rate by 50 basis points, marking a sharp departure from its earlier hawkish stance. In addition, the analysts argue that the zloty faces a stronger structural drag following the surprise victory of a PiS-backed candidate in the presidential election. The analysts think that this outcome reduces the ruling coalition's ability to implement reforms, raising concerns over fiscal coordination and access to EU funds.



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Global Financial Indicators

6/13/25 7:47 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		6,045	0.4	1.8	2.7	11.3	3
Europe		5,284	-1.4	-2.7	-2.4	7.1	8
Japan		37,834	-0.9	0.2	0.2	-2.5	-5
China		3,864	-0.7	-0.3	-0.6	9.1	-2
Asia Ex Japan		82	0.2	2.7	5.1	14.5	14
Emerging Markets		48	0.2	2.4	4.2	13.5	14
Interest Rates					basis points		
US 10y Yield		4.4	0	-14	-10	12	-21
Germany 10y Yield		2.5	1	-9	-20	2	12
Japan 10y Yield		1.4	-4	-4	-3	44	31
UK 10y Yield		4.5	4	-13	-16	39	-6
Credit Spreads					basis points		
US Investment Grade		128	0	-2	-9	9	9
US High Yield		350	1	-8	-12	2	22
Exchange Rates					%		
USD/Majors		98.5	0.6	-0.7	-2.5	-6.4	-9
EUR/USD		1.15	-0.6	1.0	2.9	7.2	11
USD/JPY		144.2	0.5	-0.4	-2.2	-8.2	-8
EM/USD		45.9	-0.1	0.0	0.9	-0.6	7
Commodities					%		
Brent Crude Oil ($/barrel)		74.3	7.1	11.7	12.3	-4.7	2
Industrials Metals (index)		142.0	-1.4	-1.2	-1.3	-7.0	1
Agriculture (index)		55.7	0.1	-1.4	-3.1	-7.2	-2
Gold ($/ounce)		3422.8	1.1	3.4	5.3	48.5	30
Bitcoin ($/coin)		104962.7	-1.0	-1.2	0.3	57.4	12
Implied Volatility					%		
VIX Index (%, change in pp)		20.4	2.4	3.6	2.2	8.4	3.0
Global FX Volatility		8.5	0.0	-0.1	0.3	1.3	-0.7
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		76	2	6	-3	-41	-9
Italy		95	3	3	-6	-51	-20
France		72	2	5	5	2	-11
Spain		63	3	5	1	-22	-6

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

Emerging Market Financial Indicators

Last updated: 6/13/2025 7:49 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	-0.1	0.1	0.3	1.0	1.6		1.7	0	-3	-3	-53	3
Indonesia		16304	-0.4	-0.1	2.0	-0.2	-1.1		6.6	-3	-6	-14	-30	-39
India		86	-0.6	-0.5	-0.9	-3.0	-0.6		6.8	2	7	0	-42	-51
Philippines		56	-0.7	-0.8	-0.7	4.3	3.2		4.9	1	0	0	-60	5
Thailand		32	-0.2	0.9	2.4	13.2	5.8		1.9	-1	-4	-14	-101	-48
Malaysia		4.25	-0.6	-0.3	1.8	10.9	5.3		3.5	-2	1	-7	-33	-29
Argentina		1185	-0.3	0.5	-4.5	-23.9	-13.0		28.0	-116	-64	-128	-1747	-119
Brazil		5.54	0.0	0.9	2.5	-2.2	11.5		14.1	0	-17	6	214	-185
Chile		930	0.5	0.1	1.8	-1.6	7.1		5.5	-1	-4	-6	-20	-16
Colombia		4155	0.7	-1.1	1.7	-3.0	6.0		12.5	1	34	54	168	68
Mexico		19.03	-0.7	0.5	2.1	-3.4	9.5		9.3	0	6	-11	-117	-106
Peru		3.6	0.4	0.5	1.4	4.5	4.1		6.7	-13	24	33	-32	8
Uruguay		41	0.3	1.3	1.9	-4.4	6.5		9.0	-2	-8	-56	-25	-69
Hungary		351	-1.1	1.0	3.0	5.4	13.4		6.7	-1	4	10	6	31
Poland		3.71	-0.8	1.3	2.0	9.0	11.2		5.1	-4	1	8	-37	-49
Romania		4.4	-0.8	1.2	4.3	5.9	9.8		7.4	1	-3	-69	87	16
Russia		79.6	0.5	-0.8	0.3	10.4	42.6							
South Africa		18.0	-1.2	-1.1	1.8	2.5	4.8		10.4	-1	5	-40	-126	-8
Türkiye		39.44	-0.2	-0.5	-1.6	-18.1	-10.4		33.5	24	-23	-127	429	377
US (DXY; 5y UST)		98	0.6	-0.7	-2.5	-6.4	-9.2		3.97	0	-15	-13	-28	-42

	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		3,864	-0.7	-0.3	-0.6	9.1	-1.8		106	0	-7	-31	10
Indonesia		7,166	-0.5	1.4	0.8	6.4	1.2		98	0	-3	-3	7
India		81,119	-0.7	-1.3	-1.5	5.4	3.8		102	-5	-14	10	16
Philippines		6,396	0.2	0.3	-1.1	0.2	-2.0		81	1	5	-8	2
Thailand		1,123	-0.5	-1.2	-6.1	-14.1	-19.8						
Malaysia		1,518	-0.6	0.1	-3.4	-5.6	-7.6		77	0	-4	-1	7
Argentina		2,187,671	0.8	3.0	-4.3	36.3	-13.7		686	-27	29	-803	49
Brazil		137,800	0.5	1.1	-0.8	15.2	14.6		222	-1	3	0	-25
Chile		8,269	-0.6	1.5	-1.2	27.5	23.2		115	-1	1	-5	2
Colombia		1,649	-0.6	-0.1	-3.0	19.0	19.5		343	4	1	39	17
Mexico		57,830	0.1	0.1	0.8	10.6	16.8		281	-12	-23	-34	-31
Peru		32,634	0.2	1.0	6.1	11.3	12.7		131	-2	-1	-20	-10
Hungary		94,714	-0.3	-1.9	0.6	35.3	19.4		160	8	6	11	5
Poland		99,410	-1.5	0.1	-4.7	18.8	24.9		113	3	9	17	1
Romania		18,380	-0.6	-2.3	11.0	2.9	9.9		235	-12	-70	49	0
South Africa		96,049	-1.0	-0.3	3.7	25.7	14.2		299	-6	-15	-15	6
Türkiye		9,097	-4.4	-4.0	-6.2	-12.5	-7.5		308	-4	9	28	49
EM total		48	-1.7	2.4	4.2	13.5	14.5		370	-9	-7	-8	6

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

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