GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, JUNE 30, 2025
LEAD EDITOR: SANJAY HAZARIKA

- **S&P 500 sets a new record after historic rally** (link)
- **The dollar could weaken further if foreign investors increase currency hedges** (link)
- **Yuan appreciates due to stronger fixing and better than expected PMI data** (link)
- **European government bond yields decline on mixed inflation data** (link)
- **Emerging market funds see largest inflow in two years** (link)
- **Colombia stays on hold after credit rating downgrades from Moody's and S&P** (link)

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Markets Ending Q2 2025 on a Positive Note

US equity index futures are up again this morning after the S&P 500 set a new record on Friday following a historic rally, although stocks in Europe gave up some of their gains from last week. Both US and euro area government bonds are rallying, with some euro area inflation data coming in lower than expected. The trend of a weakening dollar continued today, with the euro back above 1.17 versus the dollar and the Yuan trading near 7.16. Contacts think market participants are using the currency market to express negative views on the US while retaining most of their US equity and bond positions. News that Canada is abandoning a digital tax on US companies boosted hopes that trade talks would continue in a favorable manner, both in North America and further afield. However, the July 9 deadline for tariffs remains a worry. Meanwhile, the market continues to focus on budget negotiations in the US Senate and the US jobs report on Friday.

Key Global Financial Indicators

Last updated: 6/30/25 7:49 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		6173	0.5	3	4	13	5
Eurostoxx 50		5316	-0.2	2	-1	9	9
Nikkei 225		40487	0.8	6	7	2	1
MSCI EM		48	-0.4	4	6	13	15
Yields and Spreads				bps			
US 10y Yield		4.24	-3.3	-10	-16	-15	-33
Germany 10y Yield		2.57	-2.0	7	7	7	21
EMBIG Sovereign Spread		320	-4	-6	-10	-75	-5
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		46.2	0.0	1	1	1	8
Dollar index, (+) = $ appreciation		97.2	-0.2	-1	-2	-8	-10
Brent Crude Oil ($/barrel)		67.6	-0.3	-5	6	-22	-9
VIX Index (%, change in pp)		17.0	0.7	-3	-2	5	0

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

The most important event of the week is the June US payrolls report on Thursday, where the consensus forecast is for a gain of 113K jobs and an unemployment rate that rises from 4.2% to 4.3%. PMI data are also due to be released this week. The euro area will also report on jobs as well as inflation and PMI data. PMI data will also be released in China and India, while Indonesia will report CPI data. Central bank meetings will be held in Jamaica, Uruguay, and Poland this week. The ECB's Sintra forum on central banking begins today.

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United States

The S&P 500 reached a new record high on Friday, closing at 6173 and eclipsing the previous record close of 6144 set on February 19. The index's recovery from a bear market decline of roughly 20% to a new record close is the fastest in history at just 57 days. The index fell almost 20% from its February peak, with the decline gaining momentum after April 2 when the tariffs were announced. The index hit its low for the year on April 8 and began the rebound on April 9 when the tariffs were postponed. Market sentiment had been lifted recently by a number of positive developments. The US administration announced on Friday that trade deals with China and the EU were close to being reached. Oil prices have fallen significantly since the ceasefire in the Middle East, providing a boost to the global economy. Treasury Secretary Bessent announced an agreement with the other G-7 countries to exempt US companies from the 15% global minimum tax in exchange for dropping the Section 899 taxes on foreign companies. Relatively benign PCE inflation data reassured market participants that the bar to Fed rate cuts has been lowered further.

The Recent History of S&P 500 Drawdowns and Recoveries

Source: Bloomberg

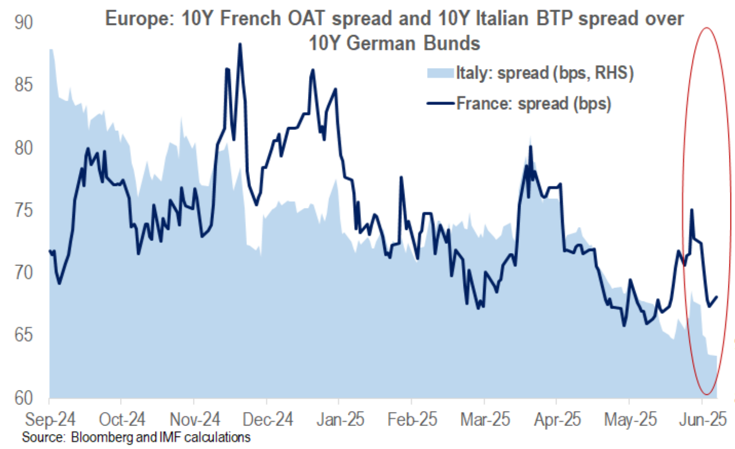
Market Peak	Length of Drawdown (Trading Days)	Rally From First 20% Decline to New Record (Trading Days)
2/12/1991	146	95
11/24/98	89	60
7/13/2007	1833	1646
4/10/2013	1381	1313
4/29/2019	148	85
8/18/2020	125	113
1/19/2024	511	424
6/27/2025	89	57
Median (20th and 21st Centuries)	485	300

Euro Area

European equities were trading slightly lower, reversing some of last week's gains. The Stoxx 600 index was around 0.2% lower, with most sectors trading in the red and other regional bourses also trading lower. Elsewhere, the Stoxx 600 banking sector gauge was trading around 1.2% lower while the euro continued to advance against the dollar to trade at 1.1717. Analysts at Bloomberg note that there may be further upside to the common currency, with the potential for EURUSD to reach 1.20. The analysts cite CTFC positioning data which shows speculative net shorts in the dollar have risen to the highest level in nearly two years, while hedge funds are turning net long the euro for the first time since April.

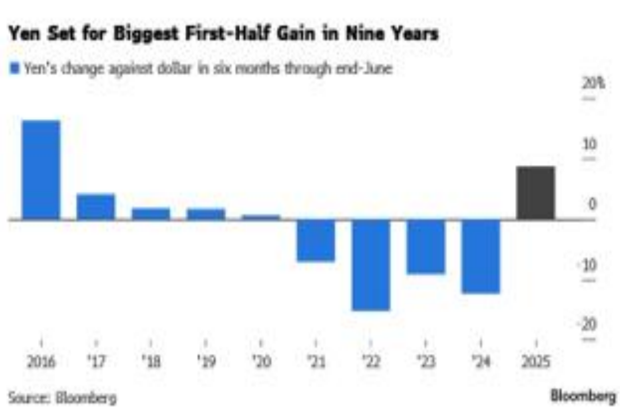
European government bond yields declined following mixed June flash inflation data. Preliminary June state-level inflation data for Germany painted a mixed picture, with inflation slowing to 1.8%y/y in

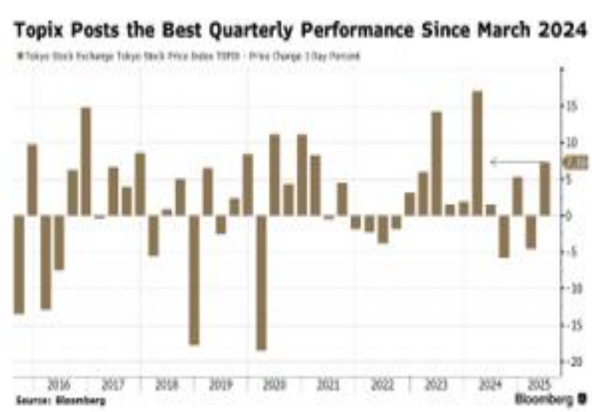
Bavaria and North Rhine Westphalia, while figures for Saxony showed a slight tick up to 2.4%y/y. National level flash inflation data for Germany are scheduled to be released later today with consensus expectations for inflation to have edged higher to 2.2%y/y from 2.1% prior. Similar data for Italy surprised on the downside as prices rose by 1.7%y/y versus expectations of 1.8%. Following this morning's data release, European government bond yields were trading up to 2bps lower across the curve with the 2Y German Bund yield trading at 1.8% and the 10Y bund yielding 2.6%. Intra-European government bond spreads were broadly steady having tightened significantly over the past week. This morning, the 10Y Italian BTP-Bund spread was holding steady at around the 88bps level while the 10Y French OAT-Bund spread was relatively flat at 68bps.



Japan

The Yen continued to strengthen, outperforming other G10 currencies today. During Asian hours, it appreciated by 0.4% to ¥144.13 against the US dollar and has gained 9% in 2025. JGB yields held steady. Japanese equities rose for a fifth consecutive day (TOPIX: +0.4%), after trade negotiator Akazawa's extended US visit spurred hopes for a trade deal. In Q2 2025, the Topix posted the best quarterly performance since March 2024, and is just 2.6% below its previous all-time high set in July 2024. Despite US tariffs and heightened Middle East tensions during the quarter, Japanese stocks benefited from the global trend of diversification out of US assets, with foreign investors buying for the twelveth consecutive week. Today, exporters such as machinery and precision instruments gained, while shares in the fisheries sector reacted positively to China's announcement it would resume imports of certain Japanese seafood products. However, carmakers including Mazda Motor and Subaru declined after Trump characterized trade in cars between the two countries as unfair and said that a 25% tariff will be imposed on Japanese cars.



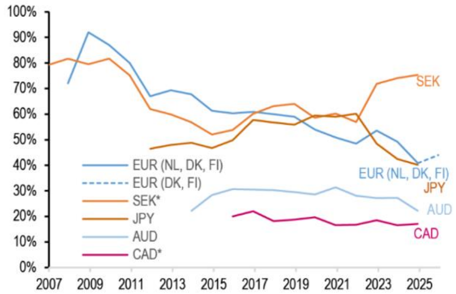


Foreign Exchange Markets

The dollar could weaken further if foreign investors increase their currency hedge ratios. Market participants such as pension funds and life insurance companies have large holdings of US equities that traditionally had very low foreign exchange (FX) hedge ratios for many years because of the long trend of dollar appreciation. However, the sharp depreciation of the dollar in 2025 has inflicted sizeable currency losses, forcing these investors to hedge their currency risk by shorting dollars versus their home currencies. How much of the exposure will be hedged cannot be known in advance, but analysts at JP Morgan find that even a 5% increase in their hedge ratios could create large moves in the currency market for many countries, making the dollar even weaker.

Figure 17: Several DM countries have been cutting their hedge ratios in recent years and there is room to raise them; Swedes had already been raising them for a few years already

USD (unless specified) hedge ratios on pension funds' and/or lifers' portfolio from aggregated central bank data or company annual reports.



*SEK and CAD use *total* hedge ratio; rest are USD.
Our sample from Swedish annual reports covers ~60% of AUM of the pension fund/insurance sector but time series excludes AP7 which does not hedge at all (i.e. time series covers ~45%). AUD hedge ratio is on listed equities; rest on all assets with FX exposure.
EUR 1Q'25 number (dotted line) uses timelier data from DK (Apr) & FI (1Q), but holding NL constant at 4Q level. FI data is pension fund industry-wide; DK covers all pension funds and life insurance companies; NL figures cover 55% of domestic pension AUM. Weighted by AUM.
JPY only uses lifers data; GPIF total portfolio hedge ratio is ~1% . AUD, CAD, NL, FI are pension funds, SEK and DKK a mix.

Source: Company annual reports, APRA, BoJ, Danish National Bank, TELA, J.P. Morgan

Figure 19: Raising hedge ratios by 5%pts would likely have the most FX impact for CAD, SEK, CHF, SGD, KRW

US equity holdings from TIC and potential FX impact of a 5%pt hedge ratio increase on all these holdings for G10 and largest EM holders.

	EUR	GBP	JPY	CHF	NOK*	SEK	AUD	NZD	CAD	SGD	HKD	ILS	KRW
US equity holdings													
USD bn	4374	1809	1041	849	718	342	626	52	1830	649	225	153	525
% of GDP	27	50	26	91	149	57	35	20	82	119	55	29	28
Impact of hedge ratio rising by 5%													
USD bn	219	90	52	42	5	17	31	3	92	32	11	8	26
% of GDP	1.3	2.5	1.3	4.5	1.1	2.8	1.7	1.0	4.1	6.0	2.8	1.5	1.4
% of daily USD/CCY FX spot volume	52	57	15	72	36	95	28	9	84	65	29		81

*NOK: assumes hedging potential on only 15% of holdings (rest are GPFG and mandate is not to hedge); the rest do not account for other local constraints, e.g. that ~20% for CHF is SNB where holdigs can only be repatriated for monetary policy purposes.

Source: J.P. Morgan, TIC, BIS, Haver

Emerging Markets back to top

EMEA equities were mostly trading higher while currencies were mixed. According to Bloomberg, Senegal's dollar bonds due 2031 declined by 2.19 cents on the dollar to 74.41, the lowest closing since April 23rd after analysts at Barclays said that the government debt burden is larger than previously thought at 119% of GDP in 2024. **Asian currencies were mixed (EM Asia: +0.1%), with Korean won (+0.6%) appreciating the most and the Taiwan POC dollar (-0.6%) weakening the most.** Asian equities were mixed but declined in late trading. **Latin American currencies and stocks were also mixed.** The Mexican peso (+0.3%) appreciated against the dollar after Banxico signaled a slower pace of rate cuts at future meetings. Colombian assets underperformed following sovereign credit ratings downgrades from Moody's and S&P. On the monetary policy front, **Colombia held its overnight lending rate at 9.25% and Trinidad and Tobago held its Central Bank repurchase rate at 3.5%**.

EM Fund Flows

EM bond funds recorded the largest weekly inflow in over two years. Total bond inflows increased to $1.5bn (from $1.1bn previously), the largest since early 2023. Bond inflows were driven by hard (+$759mn) and local (+712mn) currency funds, marking the fourth and sixth consecutive weeks of inflows, respectively. Hard currency fund inflows were driven by broad EM funds (+$697mn) and Asia ex-Japan funds (+$62mn). Local currency inflows were driven by EM ex-China (+$728mn) but partially offset by China focused funds (-$16mn). Equity funds saw inflows of +$680mn (from +$4.1bn), driven by ETFs (+$2.2bn) which were partially offset by non-ETFs (-$1.5bn). Regionally, EMEA (+$31mn) and Latam (+22mn) had inflows while Asia ex-Japan (-$881mn) experienced outflows.

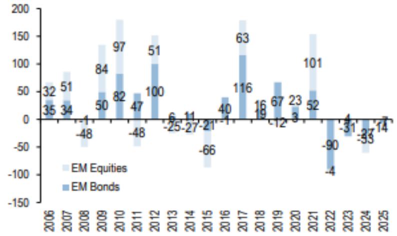
Figure 1: Weekly cross-asset flows

USD billion

Fund Flows	Asset	8w flows (8w ago → current)	This wk	YTD
	EM Bonds and Equities		2.2	-20.2
	EM Bonds		1.5	-6.5
	Hard Ccy		0.8	-8.3
	Local Ccy^		0.7	1.8
	o.w. EM ex-China		0.7	0.7
	o.w. China		0.0	-1.1
	EM Equities		0.7	-13.6
	US HG		4.4	33.5
	US HY		2.0	10.3
	Global Equities		7.0	34.9
	EM Bond and Equity ETFs		3.1	18.9
	EM Bond ETFs		0.8	-0.7
	EM Equity ETFs		2.2	19.5
	Non-resident EM flows*		0.9	-28.0

Figure 2: EM bond and equity fund flows

USD billion

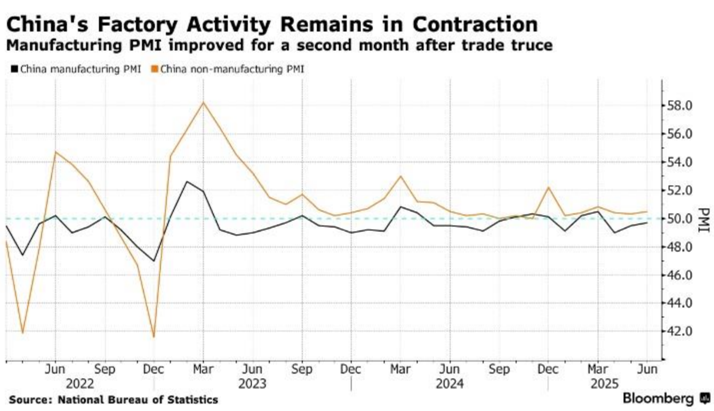


*High-frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only.

Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

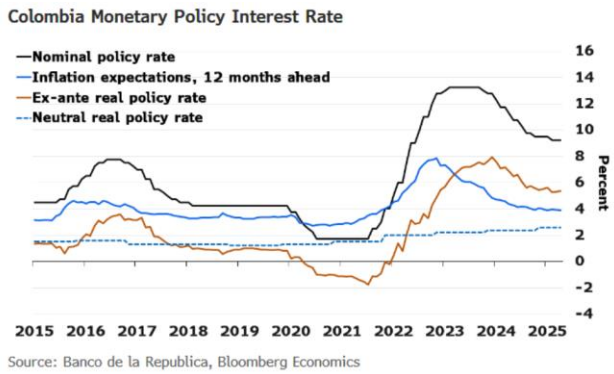
China

China's factory activity improved for a second month but remained in contraction, as trade rebounded after the trade truce with the US. The official manufacturing PMI was 49.7 in June (May: 49.5), slightly exceeding the median Bloomberg estimate of 49.6. The non-manufacturing measure of activity in construction and services rose to 50.5 (May: 50.3; consensus: 50.2). Analysts see the acceleration in manufacturing production and expansion in demand for the month as encouraging signs, but think that further employment shrinkage and weak confidence remain challenging. The positive data left analysts unsure if and when authorities will roll out fresh measures to support growth. Both onshore CNY (+0.1%) and offshore CNH (+0.1%) strengthened towards the 7.16 level, after PBOC fixes yuan at 7.1586 per dollar versus 7.1627 last Friday. Analysts continue to expect yuan to strengthen at a "measured pace" given the need to anchor relative stability and avoid sharp dollar selling by exporters.



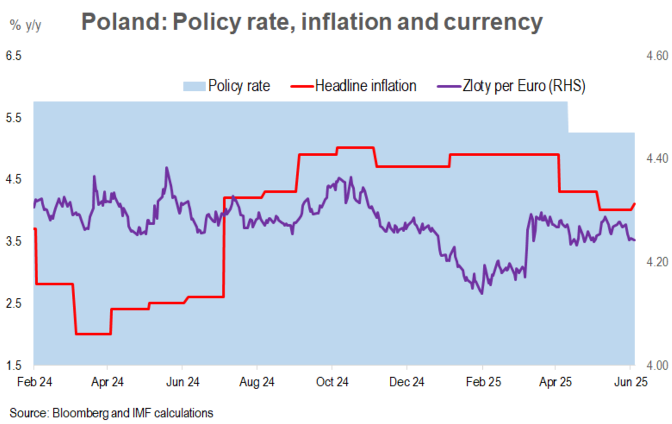
Colombia

Colombia held its overnight lending rate following two sovereign credit rating downgrades. In a split decision the overnight lending rate was left unchanged at 9.25% as expected, with four policymakers in favor of the decision, two voting for a 50bp cut, and one arguing for a 25bp cut. The decision came one day after Colombia received dual sovereign credit rating downgrades from Moody's and S&P. Both agencies highlighted deteriorating debt metrics and recent suspension of a fiscal rule for borrowing limits as reasons for the downgrade. Moody's cut its rating to the lowest investment grade of Baa3 from Baa2, with a stable outlook. Alternatively S&P cut its rating to BB, two notches below investment grade, from BB+, with a negative outlook. Bloomberg analysts reveal that 16 peso-denominated securities would be removed from the Bloomberg Global Aggregate Index since the methodology requires at least two investment grade ratings from the three major agencies. Colombian assets underperformed following the downgrades, with equities (-0.6%) falling and the peso (-1.5%) underperforming emerging market currencies.



Poland

June preliminary headline inflation surprised to the upside in Poland. Flash headline inflation printed at 4.1% y/y in June, slightly ahead of consensus expectations of 4% y/y. The central bank (NBP) kept its policy rate at 5.25% in June and is expected to keep the rate on hold at its upcoming MPC meeting on July 2 when it will release its revised economic projections. Analysts at Goldman Sachs expect the NBP to lower its average 2025 inflation forecast to around 3.4% y/y from the previous 4.9% y/y, reflecting a downward trajectory due to disinflationary factors such as muted growth in producer prices, declining energy prices and the persistent strength of the zloty. Goldman Sachs expects inflation to slow below target from July onwards, enabling the NBP to cut rates by 100 bps by the end of the year. This morning, the zloty was trading broadly steady against the euro at around PLN 4.24/€. Separately, Bloomberg reports that Poland is offering 7Y eurobonds as well as a 12Y green bond. The transactions are expected to price later today.



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Global Financial Indicators

	Level		Change				
6/30/25 7:53 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		6,173	0.5	3.4	4.4	13.0	5
Europe		5,316	-0.2	1.8	-0.9	8.6	9
Japan		40,487	0.8	5.6	6.6	2.3	1
China		3,936	0.4	2.0	2.5	13.7	0
Asia Ex Japan		83	-0.3	3.9	6.7	14.8	15
Emerging Markets		48	-0.4	3.8	5.6	12.9	15
Interest Rates					basis points		
US 10y Yield		4.2	-3	-10	-16	-15	-33
Germany 10y Yield		2.6	-2	7	7	7	21
Japan 10y Yield		1.4	-1	2	-7	38	33
UK 10y Yield		4.5	-2	-1	-16	31	-8
Credit Spreads					basis points		
US Investment Grade		131	-2	1	-4	3	11
US High Yield		350	-2	-4	-20	-14	21
Exchange Rates					%		
USD/Majors		97.2	-0.2	-1.2	-2.1	-8.1	-10
EUR/USD		1.17	0.0	1.2	2.5	9.1	13
USD/JPY		144.2	-0.3	-1.3	1.0	-10.7	-8
EM/USD		46.2	0.0	0.5	1.3	0.5	8
Commodities					%		
Brent Crude Oil ($/barrel)		67.6	-0.3	-5.5	7.6	-14.9	-7
Industrials Metals (index)		148.7	-0.3	2.5	5.5	-1.7	6
Agriculture (index)		54.9	-0.2	-2.7	-1.9	-3.7	-4
Gold ($/ounce)		3283.6	0.3	-2.5	-2.9	40.8	25
Bitcoin ($/coin)		107645.7	0.2	-0.2	2.7	73.9	15
Implied Volatility					%		
VIX Index (%, change in pp)		17.0	0.7	-2.8	-1.5	4.6	-0.3
Global FX Volatility		8.6	0.1	0.0	-0.2	1.0	-0.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		70	0	-8	-6	-56	-16
Italy		88	-1	-10	-10	-70	-28
France		68	0	-5	2	-12	-15
Spain		64	0	-6	4	-28	-6

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

Emerging Market Financial Indicators

Last updated: 6/30/2025 7:55 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		7.16	0.1	0.2	0.5	1.4	1.9		1.7	0	1	-5	-46	2
Indonesia		16238	-0.3	1.6	0.1	0.5	-0.7		6.6	0	-7	-10	-39	-39
India		86	-0.3	1.2	-0.4	-2.7	-0.2		6.7	-1	-12	0	-59	-61
Philippines		56	0.4	2.3	-1.1	4.1	2.9		4.9	-4	-6	-9	-46	-2
Thailand		33	0.3	0.7	0.0	13.0	5.7		1.7	-2	-9	-29	-109	-64
Malaysia		4.21	0.6	2.0	1.1	12.0	6.2		3.5	-1	-7	-2	-36	-30
Argentina		1188	0.0	-2.0	-2.7	-23.3	-13.2		32.0	143	241	279	-1197	285
Brazil		5.49	0.0	0.5	2.8	0.2	12.5		13.9	-2	-10	-4	200	-201
Chile		941	-1.0	0.2	-0.4	1.5	5.9		5.5	-1	-2	-13	-53	-20
Colombia		4098	-1.4	-0.1	0.4	1.6	7.5		12.1	0	7	0	132	26
Mexico		18.84	-0.1	1.5	2.0	-2.5	10.6		9.3	5	-7	-10	-76	-107
Peru		3.5	0.1	1.5	2.6	8.0	5.9		6.5	-2		0	-60	-16
Uruguay		40	0.3	1.3	3.8	-1.3	9.0		8.9	-7	-12	-51	-63	-76
Hungary		341	0.0	2.1	3.4	7.8	16.6		6.7	-2	-7	-2	-5	25
Poland		3.62	0.1	2.0	2.8	11.1	14.2		5.0	1	-18	-7	-42	-56
Romania		4.3	0.2	0.7	2.2	7.1	11.0		7.3	1	2	-4	69	7
Russia		78.5	0.2	0.0	0.7	10.7	44.7							
South Africa		17.8	0.3	0.6	0.5	3.4	6.0		10.3	1	-6	-45	-121	-20
Türkiye		39.79	0.3	-0.4	-1.5	-17.9	-11.1		32.5	-18	-85	-120	370	277
US (DXY; 5y UST)		97	-0.2	-1.2	-2.1	-8.2	-10.4		3.80	-3	-11	-16	-57	-58

	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		3,936	0.4	2.0	2.5	13.2	0.0		112	5	-6	-27	16
Indonesia		6,928	0.4	0.3	-3.5	-3.0	-2.2		100	1	-3	-9	9
India		83,606	-0.5	2.1	2.6	5.2	7.0		106	2	-5	6	20
Philippines		6,365	-0.7	2.4	0.4	-0.5	-2.5		86	1	2	-5	7
Thailand		1,090	0.7	2.5	-5.2	-16.1	-22.2						
Malaysia		1,533	0.3	2.0	1.6	-4.1	-6.7		77	0	-5	-10	7
Argentina		2,041,078	0.1	-1.1	-10.4	26.7	-19.4		687	-47	12	-762	50
Brazil		136,866	-0.2	-0.2	-0.1	10.5	13.8		223	0	3	-10	-24
Chile		8,213	0.4	2.3	2.1	28.1	22.4		116	3	-2	-8	3
Colombia		1,668	-0.6	0.9	3.7	20.8	20.9		347	2	11	35	21
Mexico		57,392	-0.1	2.0	-0.8	9.4	15.9		278	-4	-19	-42	-34
Peru		32,658	-0.3	0.8	4.3	9.2	12.8		129	-1	1	-17	-12
Hungary		97,560	-0.4	0.4	1.9	35.3	23.0		164	-5	5	8	9
Poland		104,960	1.2	6.0	3.4	18.4	31.9		108	-2	-5	6	-4
Romania		18,758	0.7	0.8	2.5	2.8	12.2		240	0	-23	45	4
South Africa		96,475	0.6	1.4	2.3	21.0	14.7		303	-7	-16	-24	10
Türkiye		9,919	5.5	8.5	10.0	-6.8	0.9		320	5	12	24	61
EM total		48	-0.1	3.8	5.6	12.9	15.0		371	-8	-11	-14	7

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

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