- **US equities sell-off as bank stocks plummet** (link)
- **US Treasury rally intensifies after stronger-than-expected US nonfarm payrolls** (link)
- **The pound strengthens as January GDP data surprises on the upside in the UK** (link)
- **Bank of Japan keeps its monetary policy settings unchanged, as expected** (link)
- **S&P Global downgrades Argentina's local currency debt rating to selective default** (link)
- **Peru holds interest rate steady at 7.75%, as expected** (link)
- **Analysts see further tightening in Egypt after upside inflation surprise** (link)

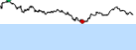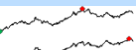Mature Markets | Emerging Markets | Market Tables

Investors run for cover

Market sentiment deteriorated sharpy with global stocks and sovereign bond yields tumbling amid emerging concerns about the health of banks. Headlines about US bank SVB triggered the sell-off, with European bank shares also suffering this morning. SVB shares fell 60% yesterday after the bank said that it had made major changes to its balance sheet and would raise new equity. Both investment grade and high yield credit spreads widened, and crypto assets fell broadly. As investors dashed for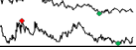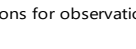 safety, advanced economy sovereign bond yields dropped, with 10-year US Treasury and bund yields 8 bps and 14 bps lower earlier this morning, respectively. The rally in sovereign bonds intensified—with 10-year US Treasury yields down another 5 bps—immediately following the release of stronger-than-expected US nonfarm payrolls later this morning. Elsewhere, the Bank of Japan kept its monetary policy settings unchanged—as expected—with 10-year JGB yields plummeting 10 bps as traders pulled back from bets on a JGB sell-off and also in sympathy with the drop in other sovereign bond yields this morning.

Key Global Financial Indicators

Last updated: 3/10/23 8:09 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities					%		%
S&P 500		3918	-1.8	-2	-4	-8	2
Eurostoxx 50		4231	-1.3	-1	1	16	12
Nikkei 225		28144	-1.7	1	3	12	8
MSCI EM		38	-2.2	-3	-5	-13	0
Yields and Spreads					bps		
US 10y Yield		3.83	-7.8	-13	9	184	-5
Germany 10y Yield		2.50	-14.0	-21	14	223	-7
EMBIG Sovereign Spread		460	11	7	24	-44	8
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		50.2	-0.1	-1	-1	0	1
Dollar index, (+) = $ appreciation		105.1	-0.2	1	1	7	2
Brent Crude Oil ($/barrel)		81.2	-0.5	-5	-6	-26	-5
VIX Index (%, change in pp)		22.9	0.3	4	2	-7	1

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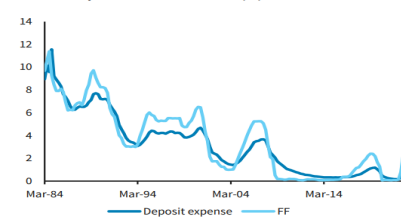
Mature Markets

United States

On Thursday, risky assets broadly weakened as several negative headlines from banks weighed on market sentiment. Worse than expected economic data also affected sentiment as weekly initial jobless claims increased to 211k from 190k, higher than expected (consensus 195k). **The S&P 500 (-1.9%) declined the most in the last two weeks, driven by financial stocks (-4%).** The KBW Bank index (consisting of 24 banking stocks representing US major banks and leading regional banks) shed by more than 7%. Headlines about SVB triggered the sell-off with its shares plummeting 60%. Both investment grade and high yield credit spreads widened, and crypto assets broadly tumbled, with bitcoin down more than 8% (and shares in crypo-exposed bank Silvergate dropping over 20%). Markets are increasingly concerned that higher interest rates, along with liquidity absorption by the Fed's quantitative tightening, may impact bank profitability, forcing banks to increase the rates paid for deposits. Also, raising funding costs could weigh further on banks' profitability and, at worst, lead to a liquidity shortage, especially for smaller and community banks. Barclays analysts expect outflows from deposits to accelerate this year given the still low deposit rate compared to other markets securities such as T-bills, as banks will need to compete more aggressively to retain deposits.

Despite the attention-grabbing headlines, market contacts commented that the market reaction might be overdone. They see those incidents were caused by more company-specific issues related to their large exposures to crypto assets (Silvergate) and tech startups (SVB), while bank earnings on aggregate have been in line with their prior guidance. Moreover, SVB's balance sheet has peculiarities that most other banks do not share. The bank became reportedly very sensitive to higher interest rates as these decreased the value of the bank's long term debt securities, in which it had invested because it could not invest in tech the significant inflows via deposits it saw during covid. At the same time, higher rates are curbing the supply of deposits, which are mostly held by interest-sensitive businesses (rather than households). **Some contacts argued that the idiosyncratic nature of these events may be reflected in the modest moves in bank CDS spreads so far. But others expressed concerns about whether SVB could be the canary in the coal mine for interest rate risk.** For example, and while SVB stands out among US regional banks in terms of uninsured deposits, there are few other large regional banks with high shares, like First Republic and Signature Bank.
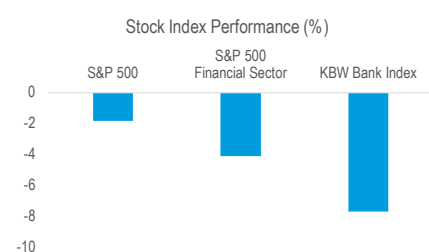
Stock Index Performance (%)
Source:Bloomberg

FIGURE 1. Deposit rates and fed funds (%)
Source: FDIC, Federal Reserve, Barclays Research

Markit CDX North America Financial Index
Source : Bloomberg

This morning, the US Treasury rally intensified following a stronger-than-expected nonfarm payrolls report. February nonfarm payrolls came in stronger than expected (311k vs. exp. 225k) with a downward revision to the previous month (from 517k to 504k). The unemployment rate was higher than expected (3.6% vs. exp. 3.4%), amid a higher-than-expected participation rate (62.5% vs. exp. 62.4%). Average hourly earnings increased less than expected by 0.2% m/m or 4.6% y/y (vs. exp. 0.3%, exp. 4.7%).

Analysts expect that growth concerns triggered by tighter monetary policies may push equity volatility higher. Volatility in Treasury markets has increased since February, while equity market volatility has been relatively benign. This likely reflects the fact that yields have been soaring as strong economic

data along with Fed chair Powell's testimony drove a sharp repricing of the Fed policy path and a rate sell-off while equities have been relatively resilient as growth concerns have been easing. Goldman Sachs analysts, however, expect that the spread between rate volatility to equity volatility should start to decrease after markets digest some key events, such as the March FOMC meeting. According to their analysis, macro variables correlated with rate volatility, such as the dispersion in rate forecasts, have mostly peaked. But this is not good news for equities, as inflation concerns may force more aggressive Fed tightening and could eventually trigger recession concerns, which would drive equity volatility higher.

Exhibit 1: Rates volatility has rebounded again recently, while equity vol remains near 1-year lows
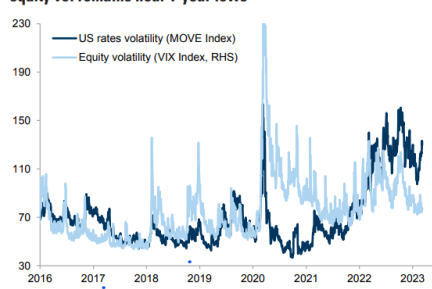
Source: Bloomberg, Goldman Sachs Global Investment Research


Exhibit 5: Macro drivers of rates volatility are near or past their peak
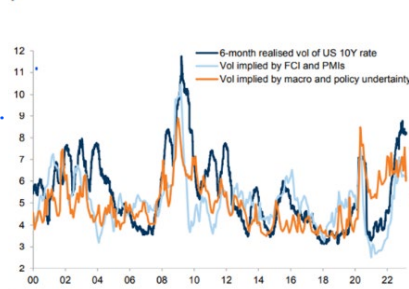
Source: Haver Analytics, Consensus Economics, Goldman Sachs Global Investment Research

Euro-area

Euro-area equity markets were sharply down, in line with global trends, driven by concerns about banks. Today, the Stoxx Europe 600 was losing 1.5%, and banking stocks were down 4% (but are still up 13.2% this year so far). The euro was slightly strengthening vs. the dollar (+ 0.1% to 1.06/$). Sovereign bond yields were sharply down, with German 10-year bund yields down 14 bps to 2.50%. Italian spreads were up 6 bps to 181 bps. Markets have repriced the ECB terminal rate down 10 bps since yesterday, to about 3.87% in October.

Equity Markets (Index 100 = Jan 1, 2022)

Source: Bloomberg and IMF
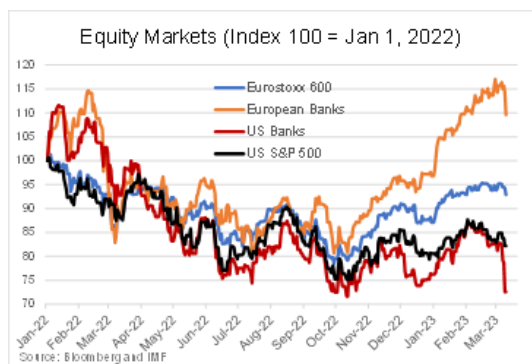
United Kingdom

The British pound strengthened about 0.5% to (to 1.20 £/$) as monthly GDP data for January was stronger than expected (+0.3% m/m vs 0.1% expected). GDP growth through January on a 3m/3m basis is zero. Industrial production was slightly lower than expected (-0.3% m/m vs 0% expected), but the index of services surprised on the upside (+0.5% m/m vs 0.3% expected). Some analysts now think that the UK has a good chance of avoid a technical recession in the first half of the year. Goldman Sachs analysts no longer expect a technical recession in the UK in Q1 and JP Morgan analysts see 2023 growth at 0.4%. Better growth raises the possibility that rates might peak higher than expected. Markets will therefore look closely at the wage-growth data due next week for any signs that it might have peaked.

Monthly GDP

Source: JP Morgan Research.
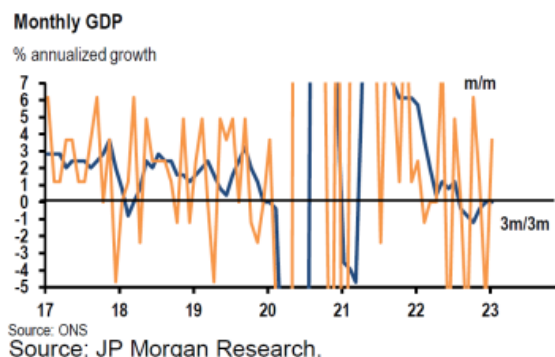
Japan

The Bank of Japan (BOJ) kept its monetary policy settings unchanged, as expected. The policy balance rate was kept at -0.1%, while the targets for the 10-year JGB yield under yield curve control were also unchanged. While wages started rising, the BOJ was still concerned about many economic uncertainties. Governor Kuroda said that it is still too early to discuss an exit from policy easing. **The 10-year JGB yield dropped to 0.4% (-10.1 bps)** as traders pulled back from bets on a bond sell-off—potentially driven by a possible policy surprise. One of the 10-year JGB notes even saw its yield slipping below zero. Longer-end JGB yields also fell (30-year: -7 bps). Japanese yen depreciated (-0.6%). Japanese equities declined (NIKKEI: -1.7%), with Japanese financial stocks falling sharply. The rally in bonds and the decline in stocks were also partly driven by concerns about troubles faced by a US bank.

Yield Pullback
Japan's benchmark bond yields retreat from tolerated ceiling

Source: Bloomberg

Emerging Markets   **back to top**

Asian markets retreated amid the global risk-off sentiment. Asian equities declined, down -1.9% on net, led by Hong Kong (-3.0%), Taiwan (-1.6%) and Chinese (CSI 300: -1.3%) equities. Most Asian currencies traded in a tight range with few exceptions—the Sri Lankan rupee appreciated (+1.3%) while the Bangladesh taka depreciated (-1.1%). Long-end government bonds dropped, with 10-year yields falling in Vietnam (-23 bps), Singapore (-17 bps), and the Philippines (-8 bps), following the decline in US Treasury yields. **EMEA equities were mostly lower and currencies were mixed.** Polish equities were underperforming (-1.9%) while the polish zloty gained against the euro (+0.2%) and local currency bond yields were little changed this morning. This follows after the scheduled press conference yesterday, where Poland's central bank governor Glapinski refrained from shifting in a more dovish direction and instead reiterated guidance that indicate rate stability in the near-term. In the Czech Republic equities fell (-1.2%) while the Czech Koruna depreciated against the euro (-0.2%) with data showing that inflation eased by marginally less than expected in February and January's industrial output disappointed in January. Elsewhere, on the data front, the unemployment rate in Türkiye eased and industrial production surprised on the upside. **Latin American equities sold off and currencies were mixed on Thursday.** Colombia (-2.5%), Brazil (-1.4%), and Argentina (-1.3%) led the losses. The Chilean peso appreciated (+1.0%) to the dollar while Mexican peso depreciated (-2.1%) after a lower-than-expected CPI print.

China

Credit continued to grow strongly in February, beating expectations. Aggregate financing reached 3.2 tn yuan ($455 bn), stronger than expected (consensus: 2.3 tn yuan, or $331 bn), partly supported larger than expected new bank loans. Corporate credit drove the credit expansion, while the increase in mortgage lending was more limited. Government bond issuances also accelerated. **Chinese equities declined (CSI 300: -1.3%; Hong Kong SAR-listed: -3.1%), led by Chinese tech stocks.** Market sentiment was hit by the lack of major policy measures announced at the National People's Congress and the global risk-off sentiment. RMB appreciated (+0.2%). CGB yields fell (1-year: -1.8 bps; 10-year: -0.4 bp).

Argentina

S&P downgraded Argentina's local currency debt rating to selective default. Argentina is attempting to swap as much of the $37 bn in debt maturing in Q2 as possible, into new debt that matures in 2024 and 2025. Most of the local debt is inflation linked. Bloomberg analysts highlighted that failing to swap the debt could require the government to print more money, further fueling inflation. S&P had previously cut Argentina's local currency rating in January of this year.

Argentina's Peso Debt Maturities
The government's largest maturities are due in 2Q and 3Q23
■ Privately Held ■ Publicly Held

Source: Portfolio Personal Inversiones   Bloomberg
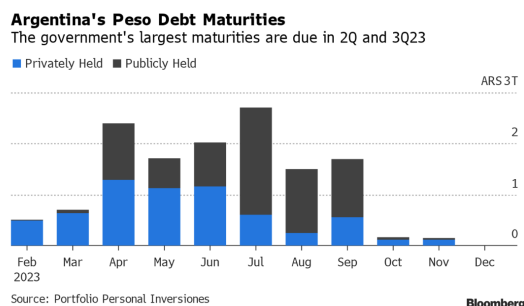
Mexico

The Mexican peso depreciated following a lower-than-expected CPI print. Both February headline and core inflation declined from January. Headline was 7.62% y/y (7.68% expected) and down from 7.91% in January, while core was 8.29% (8.35% expected) and down from 8.45% in January. Analysts are attributing the easing of prices to the strength of the peso. Last Friday, the peso closed at the strongest level since September 2017. Even after deprecating -2.1% yesterday following the release, the peso is still one of the best performing currencies in Latin America on the year, up 6% YTD.
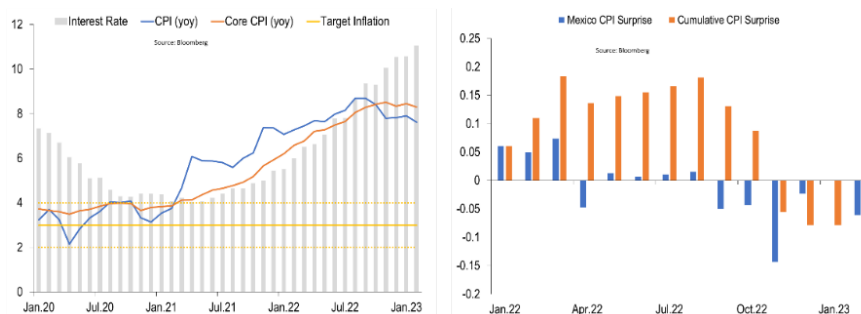
Peru

Peru held interest rates steady at 7.75%, as expected. Peru held its reference rate for the second consecutive month, after raising it at every meeting since August 2021. February's CPI came in lower than expected (8.65% vs 8.8%), while core surprised on the upside. Bloomberg analysts predicted that Peru will be one of the first major Latin American economies to begin monetary easing.

Peru Monetary Policy Interest Rate

—Nominal —Real ex-ante —Real ex-post

Source: BCRP, Bloomberg Economics. Note: Ex-ante rate is nominal adjusted for one-year inflation expectations; ex-post rate is nominal adjusted by annual inflation excluding food and energy.
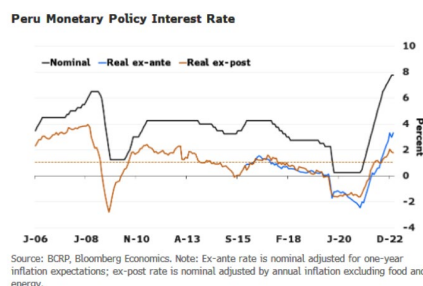
Egypt

Analysts expect the Central Bank of Egypt (CBE) to increase rates by up to 300 bps after inflation surprised significantly to the upside. Headline inflation jumped to 31.9% y/y in February from 25.8%. Goldman Sachs analysts now see inflation peaking at 36% in Q3 in the absence of further currency devaluation. Analysts argue that tighter monetary policy would be required in the coming months to contain inflation expectations, improve domestic FX liquidity and to ease pressure on the Egyptian pound. As such, Goldman Sachs analysts now see the CBE increasing rates by up to 300 bps at the upcoming MPC meeting this month. The CBE had raised rates by 800bps in 2022, but have left rates unchanged at the most recent policy meeting.

Egyptian Inflation-Adjusted Rates Have Turned Negative
Surging price gains send Egypt's real rates deep below zero

■ Egypt's year-on-year inflation ■ Central bank's base rate

2016 devaluation

Source: Bloomberg
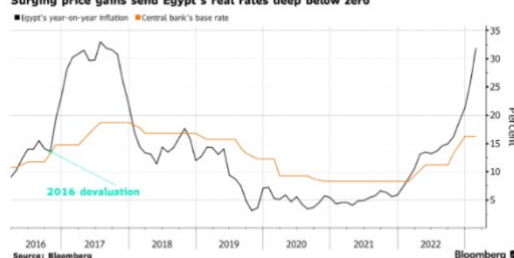
Egypt: Currency and deposit rate

—Deposit rate (%) —Egyptian Pound (RHS)

Source: Bloomberg and IMF calculations

Global Financial Indicators

3/10/23 8:07 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3916	-1.8	-3	-4	-8	2
Europe		4231	-1.3	-1	1	16	12
Japan		28144	-1.7	1	3	12	8
China		3967	-1.3	-4	-4	-8	2
Asia Ex Japan		65	-2.3	-4	-6	-11	0
Emerging Markets		38	-2.2	-3	-5	-13	0
Interest Rates			basis points				
US 10y Yield		3.83	-7.8	-13	9	184	-5
Germany 10y Yield		2.50	-14.0	-21	14	223	-7
Japan 10y Yield		0.41	-9.5	-10	-9	22	-1
UK 10y Yield		3.68	-11.3	-17	29	216	1
Credit Spreads			basis points				
US Investment Grade		155	1.5	12	12	-11	-4
US High Yield		460	12.9	43	18	28	-20
Europe IG		80	4.4	4	2	0	-10
Europe HY		419	22.3	22	9	32	-55
Exchange Rates			%				
USD/Majors		105.12	-0.2	1	1	7	2
EUR/USD		1.06	0.1	0	-1	-4	-1
USD/JPY		136.7	0.4	1	4	18	4
EM/USD		50.2	-0.1	-1	-1	0	1
Commodities			%				
Brent Crude Oil ($/barrel)		81.2	-0.5	-5	-6	-7	-5
Industrials Metals (index)		155	-1.5	-4	-6	-33	-6
Agriculture (index)		66	-0.7	-3	-5	-11	-4
Implied Volatility			%				
VIX Index (%, change in pp)		22.9	0.3	4.4	2.3	-7.4	1.2
US 10y Swaption Volatility		130.9	2.3	9.7	21.1	28.1	5.2
Global FX Volatility		9.8	0.0	0.0	-0.7	0.5	-0.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		184	6.9	7	0	-44	-21
Italy		181	6.2	-1	-4	18	-34
Portugal		88	2.6	2	2	2	-14
Spain		104	3.4	9	9	4	-6

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

Emerging Market Financial Indicators

Last updated: 3/10/2023 8:04 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		6.95	0.2	-0.7	-2	-9	-1		3.2	-4.0	-13	-1	22	10
Indonesia		15450	-0.1	-0.9	-2	-8	1		7.0	-5.6	-3	28	21	2
India		82	-0.1	-0.1	1	-7	1		7.8	-5.5	3	36	108.3	34
Philippines		55	0.2	-0.6	-1	-5	1		6.0	2.5	5	10	100	3
Thailand		35	0.0	-1.3	-4	-5	-1		2.6	-6.5	-17	-12	34	-5
Malaysia		4.52	0.0	-0.9	-4	-7	-3		3.9	-6.9	-11	12	28	-9
Argentina		200	0.0	-1.0	-5	-46	-12		88.7	5.3	-30	224	4027	52
Brazil		5.19	-0.5	0.1	0	-3	2		13.3	4.9	-51	-34	89	68
Chile		802	-0.8	0.2	-1	0	6		5.4	-7.5	-28	-1	-47	11
Colombia		4749	-0.1	0.8	1	-20	2		9.7	0.0	-20	55	143	-12
Mexico		18.42	-0.3	-2.5	1	14	6		8.7	-8.5	-32	8	37	-2
Peru		3.8	0.4	0.1	2	-1	1		8.1	0.0	-5	12	141	14
Uruguay		39	0.1	0.2	0	9	2		10.3	10.0	10	54	195	-33
Hungary		362	0.1	-1.5	0	-4	3		8.3	-3.0	-4	35	261	-130
Poland		4.42	0.2	0.1	1	-1	-1		5.6	-6.0	-39	20	111	-55
Romania		4.6	0.0	-0.2	-1	-3	0		7.4	-3.1	-22	9	126	-33
Russia		76.1	-0.2	-0.5	-3	76	-2		10.6	0.0	3	22	-1978	-128
South Africa		18.3	1.3	-1.0	-3	-18	-7		9.3	-1.5	8	50	122	17
Turkey		18.96	-0.8	-0.9	-1	-22	-1		11.5	-39.0	-11	15	-1453	162
US (DXY; 5y UST)		105	-0.2	0.6	1	7	2		4.10	-8.8	-14	18	218	10

	Equity Markets								Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)					Since	Level		Change (in basis points)			
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22	Last 12m	Latest	7 Days	30 Days	12 M	YTD
										basis points				
China		3967	-1.3	-4	-4	-8	2	-14		169	4	-5	-57	-8
Indonesia		6765	-0.5	-1	-2	-2	-1	-2		153	14	16	-62	13
India		59135	-1.1	0	-2	6	-3	3		147	-2	6	-58	5
Philippines		6590	-0.3	-1	-4	-7	0	-11		128	12	18	-36	31
Thailand		1600	-0.9	-1	-4	-4	-4	-6		0	0	0	0	0
Malaysia		1433	-1.1	-1	-3	-9	-4	-10		95	-1	-5	-56	-5
Argentina		247554	-1.3	2	-1	174	22	171		2165	67	219	291	-40
Brazil		105071	-1.4	1	-3	-8	-4	-6		271	13	7	-57	-3
Chile		5411	-0.1	-1	0	17	3	24		145	8	10	-35	13
Colombia		1211	-2.5	0	-3	-22	-6	-20		410	7	35	25	38
Mexico		53427	0.1	0	2	0	10	4		387	15	29	10	6
Peru		21761	-1.4	-1	0	-12	2	-7		189	7	5	-5	9
Hungary		42608	-0.5	-4	-7	1	-3	-11		223	12	24	49	1
Poland		59477	-1.9	-1	-1	-1	4	-5		77	10	7	6	4
Romania		12430	-0.4	0	1	4	7	-6		247	4	16	-9	-9
Russia		2270	-0.9	1	0	-8	5	-26						
South Africa		76014	-2.1	-3	-4	3	4	1		372	3	15	-17	5
Turkey		5440	-0.1	4	21	166	-1	170		465	-15	-39	-182	25
Ukraine		507	0.0	0	0	-2	-2	-2		4763	61	464	910	684
EM total		38	-1.1	-3	-5	-13	0	-20		396	4	20	-209	21

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

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