




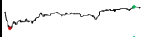



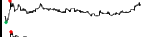




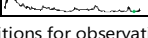
- Global risk assets rally amid pause in rising sovereign bond yields ([link](#))
- Q4 US corporate earnings show faster than expected recovery from COVID slowdown ([link](#))
- Options markets price further weakening in the euro ([link](#))
- ECB weekly purchases drop amid larger bond redemptions ([link](#))
- Reserve Bank of Australia holds policy stance; commits to remaining accommodative ([link](#))
- China's top financial regulator warns of risks emerging in global financial markets ([link](#))

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Markets mixed as risk-on mood is tempered by valuation concerns

After a strong rebound across the risk spectrum yesterday, investor sentiment has turned more hesitant this morning despite the decline in bond market volatility supporting risk-asset stabilization. With sovereign bond yields off the highs reached last week and progress on the vaccine and US stimulus front, global equity markets rebounded yesterday to open the week. US stocks posted a strong recovery with the S&P 500 up 2.4%. The gains were broad-based across reflation sectors such as financials and energy, but also a pickup in the tech sector with the Nasdaq advancing close to 3%. US Treasury yields were mixed with longer-dated yields rising slightly and intermediate yields lower, reviving the yield curve steepening trend. Overnight, market sentiment was dampened by a statement by China's top banking regulator that expressed concerns about risks emerging from expanded valuations in global financial markets. Several Asian equity indices flipped from gains to losses and closed down around 1%, while European equities are holding onto modest gains and S&P 500 futures are slightly lower. The US dollar index continues to appreciate against most G10 pairs, while options markets are signaling further weakness in the euro. Crude oil prices have trended lower with WTI testing \$60 as traders reposition ahead this week's OPEC+ summit that is expected to confirm plans to bring more production back online.

Key Global Financial Indicators

Last updated: 3/2/21 8:08 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3902	2.4	1	2	26	4
Eurostoxx 50		3726	0.5	1	4	12	5
Nikkei 225		29408	-0.9	-2	4	38	7
MSCI EM		55	2.7	-1	-1	33	7
Yields and Spreads			bps				
US 10y Yield		1.44	2.4	10	34	28	53
Germany 10y Yield		-0.32	1.6	0	17	31	25
EMBIG Sovereign Spread		351	-6	3	0	-21	1
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.9	0.0	-2	-1	-3	-2
Dollar index, (+) = \$ appreciation		91.1	0.1	1	0	-6	1
Brent Crude Oil (\$/barrel)		63.9	0.3	-2	11	23	23
VIX Index (% change in pp)		23.1	-0.3	0	-3	-10	0

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

United States

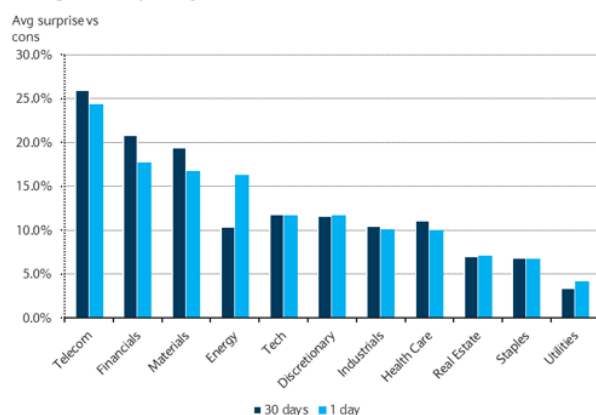
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Global risk assets rallied yesterday after investor concerns around a Treasury market tantrum abated, with strong U.S. manufacturing data adding to the buoyant mood. The S&P closed up 2.4%, while the small-cap Russell 2000 jumped by around 3.4% for its best day in almost two months. The tech-dominated Nasdaq index, which remained under significant pressure last week, ended up by 2.9%. US 10-year Treasury yields increased by 2 bps, driven in an equal part by a rise in breakeven inflation and real yields. However, the stability versus the market volatility in the last two days (+14 bps on Thursday; -11 bps on Friday) was welcomed by the markets. The rise in long-end yields also led to a steepening of the yield curve with 2s10s and 5s30s curve rising by 3 bps and 8 bps respectively.

US Q4 Corporate Earnings

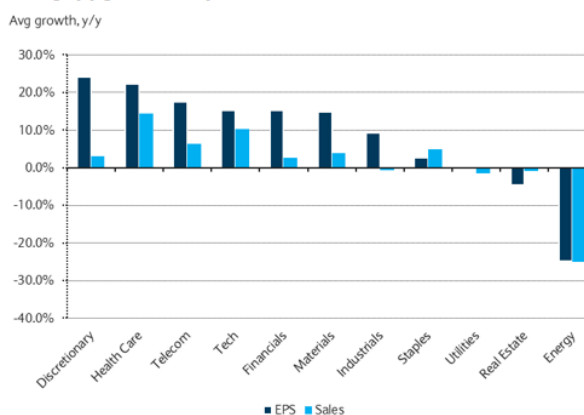
Barclays analysts note that Q4 2020 earnings continue to signal that the sectors are recovering faster-than-expected from the economic slowdown caused by COVID-19, albeit one that seems to be catching up with expectations. While the percentage of EPS beats remains substantial at 78%, this is lower than that of prior quarters. Tech, media and telecom sectors drove the EPS beats where 92% of companies reported better than consensus expectations, offsetting more mixed results in Staples, Utilities, Energy and Real Estate. The magnitude of EPS surprise vs. the consensus estimate averaged 12.2% driven by significantly better than expected results in Communication Services, Financials, Materials and Energy (left chart). EPS growth has outpaced sales in cyclical sectors like Discretionary, TMT, Materials, Financials and Industrials, while Staples, Real Estate and Energy have contended with sales deleveraging (right chart).

FIGURE 3
Average EPS surprise by sector

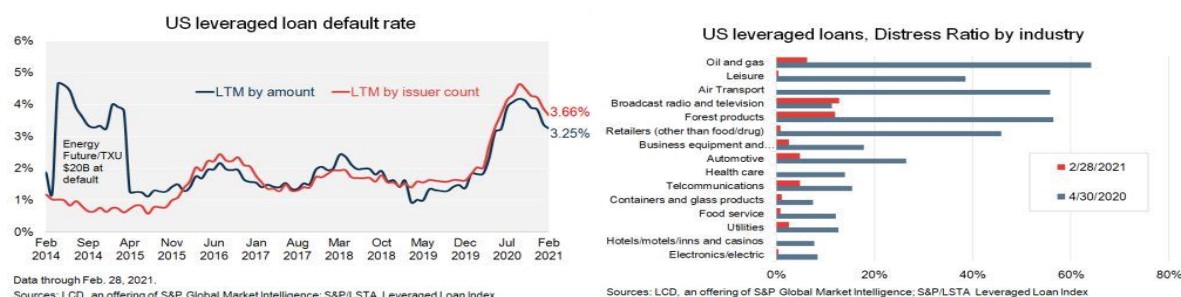


Source for all figures: Bloomberg

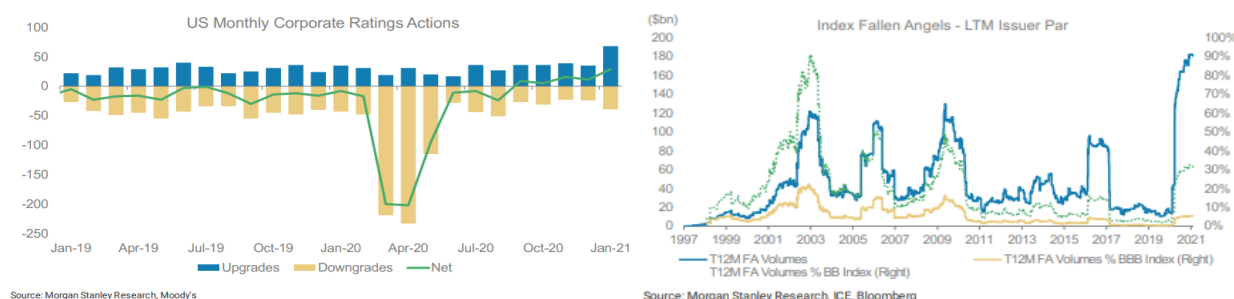
FIGURE 4
Average y/y growth rate by sector



S&P LCD data shows that the trailing twelve-month default rate of the S&P/LSTA Leveraged Loan Index fell for a fifth consecutive month in February, to 3.25% by amount, from 4.17% in September. February's \$1.15 bn of defaults, from two issuers across three loan facilities, gives a twelve-month trailing volume of \$38.3 bn, which remains 79% ahead of the February 2020 pace. The data also shows that the composition of sector distress has significantly changed from both pre- and post-pandemic levels. Oil & Gas and Retail — two mainstays of distress in the otherwise benign credit cycle — now boast sector-level distress ratios of just 6.4% and 0.9%. During the height of the pandemic lockdowns and early-2020 oil woes, these sectors had a distress ratio of 64%, and 46%. The analysts also note that other sectors to fall into distress due to the pandemic, such as Leisure, Air Transport and Hotels & Casinos, have rebounded strongly.



In a notable development in US corporate credit markets, **Brazos Electric Power Cooperative** joined a rare club of IG companies that have filed for bankruptcy after the Texas power firm collapsed under a brutal winter storm. Brazos, which carried an A+ grade from Fitch Ratings, would be the first failing angel since PG&E Corp. which went bankrupt in 2019. While previous fallen angels have been connected to wider financial crises or individual scandals, both Brazos and PG&E saw their fiscal woes fueled by extreme weather. More broadly, Morgan Stanley analysts highlight that at \$182 bn, downgrades from IG to HY were the highest on record in volume terms and almost 1.5x the peak volume of such downgrades during the GFC. However, scaled by the BB index, it is lower than the prior cycles. The analysts also note the recent fallen angel wave was more concentrated and short-lived in comparison to prior cycles. After a rapid downgrade phase during the COVID sell-off, the pace of downgrades has slowed significantly, and upgrades have started gathering pace in the recent months.

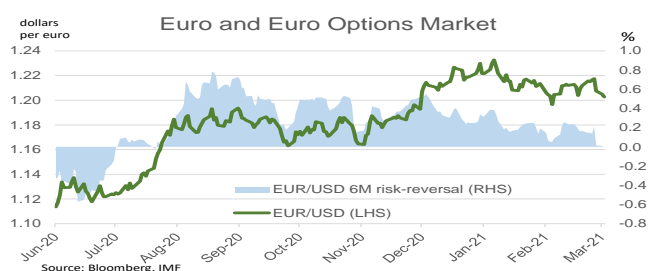


Europe

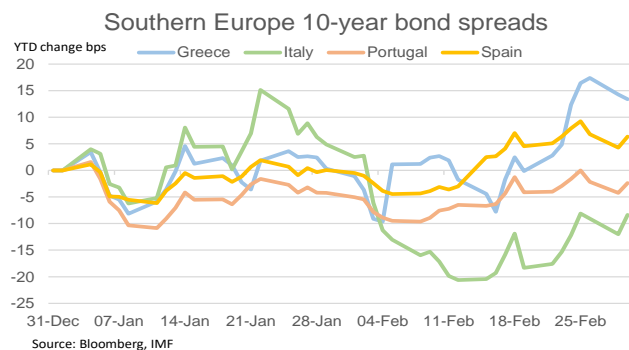
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European equities extended their rebound with the **STOXX 600 benchmark rising 0.5%**. Most sectors traded in green, except for energy shares (-0.9%) that underperformed tracking lower oil prices.

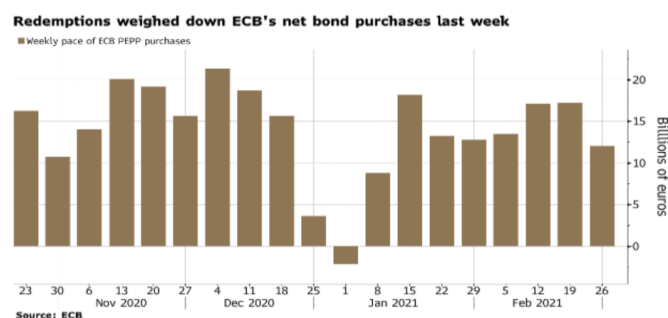
The euro (-0.2%) and the pound (-0.2%) were lower on broader dollar strength this morning with the euro briefly trading below 1.20 dollars per euro mark and cable below 1.39 dollars per sterling. Some contacts were arguing that the rise in U.S. real yields coupled with widening of yield differentials in the belly of the curve and more relaxed communication from the Fed as compared to the ECB, could be a game changer for the euro-dollar pair. The cost of put options on the euro is now above the cost of call options for up to 6m horizon also reflecting the shift in the sentiment.



European sovereign bond yields edged higher after declining 8-10 bps yesterday. German 10-year bund yields were up 2 bps and Southern European spreads widened by 2-3 bps. Despite the recent pressure on sovereign yields, Southern European spreads saw only limited widening over German bunds. Similarly, corporate credit benchmarks saw only a limited widening with both investment grade and high yield spreads remaining largely unchanged year-to-date.

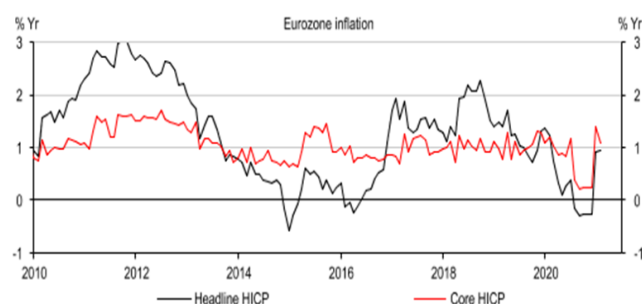


The ECB slowed the pace of net weekly sovereign bond purchases in the week ending 24th of February. The net buying under the pandemic emergency purchase program declined to €12 bn from about €17 bn that held in the two previous weeks. However, as picked up by market participants, the slowdown is likely to reflect increased redemptions over the period, which would leave gross purchases largely unchanged. At the same time, some contacts were expecting an increase in overall bond purchases given the rise in yields as well as recent comments from the central bank members.



Eurozone headline inflation remained unchanged at 0.9% y/y in February in line with consensus estimates. Core inflation slowed down to 1.1% y/y from 1.4% in January, also matching market expectations. Contacts point out that slowdown in core inflation largely reflects changes in seasonality patterns due to recent inflation weight changes and there is limited monetary policy implication from the incoming data at this stage.

Chart 1: Inflation should be on a rollercoaster this year



Other Mature Markets

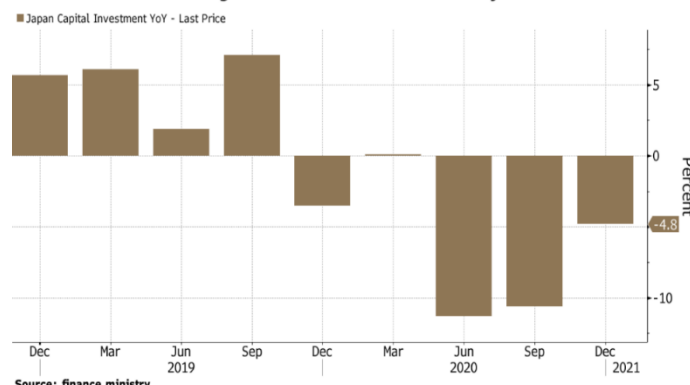
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Japan

Firms' capital spending dropped 4.8% y/y in 2020Q4, much larger than an expected 2% decline. The decline in capital spending moderated from the previous quarter (-10.6% y/y). Analysts noted that the economic recovery would likely be slower on weaker investment. **Meanwhile, the labor market appeared more resilient.** The unemployment rate remained unchanged at 2.9% in January, better than an expected increase to 3%. **JGB yields declined** (10-year: -2.7 bps; 30-year: -1.2 bps) after a smooth 10-year debt auction. **Japanese yen depreciated (-0.1%); equities declined (NIKKEI: -0.9%).**

Recovery Signal

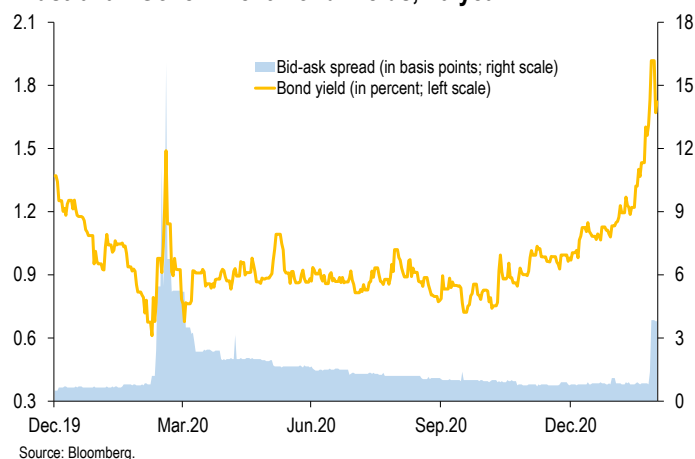
Investment levels are a sign of whether firms see better days ahead



Australia

The Reserve Bank of Australia (RBA) kept policy rates unchanged as expected. Both the cash rate and the 3-year government bond yield target remain at 0.1%. Governor Philip Lowe said that the RBA remains committed to maintaining highly supportive monetary conditions until its goal—inflation is sustainably within the 2%-3% range—is achieved. Such a condition is not expected to be met until 2024 at the earliest. He also noted that bonds purchases were brought forward this week to support smooth market functioning. **Australian dollar depreciated (-0.2%); government bond yields increased (10-year: +5.2 bps; 30-year: +5.8 bps)** as market participants perceived that the RBA focuses on ensuring market functioning rather than pushing back on yield levels. **Equities declined (-0.4%).**

Australian Government Bond Yields, 10-year





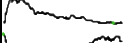

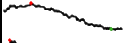


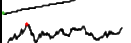



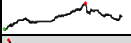

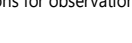
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Latin American equity markets were mostly higher on Monday. Chile outperformed as the equity index rose 1.4%, followed by Argentina (+1.2%) and Brazil. Local currencies were mixed. The Mexican peso led the gains (+1.0%) while the Brazilian real saw losses (-0.6%). 10-year government bond yields dropped 17 bps in Colombia and rose 7 bps in Brazil.

Asian stock markets were mixed, declining -0.2% on net. Korean equities gained (+1.0%) on a strong manufacturing data. Industrial productions increased 7.5% y/y, stronger than expected; manufacturing PMI increased to 55.3 in February (from 53.2). Indian equities also gained (+1.0%). Meanwhile, share prices fell in China (-1.3%) and Hong Kong SAR (-1.2%). **Most Asian currencies depreciated**, led by Indonesian rupiah (-0.5%). The Indonesian government missed its bond sale target for the third time this year. **Government bond yields generally increased** (for 10-year, Hong Kong SAR: +3 bps; Singapore: +2.7 bps).

EMEA equities edged higher while currencies were mixed in a quiet session with no large data releases. Equities outperformed in South Africa (+1.1%) and Russia (+0.4%). The Turkish lira and South African rand fell 0.4% while the Russian ruble (+0.4%) gained despite the weakness in oil prices.

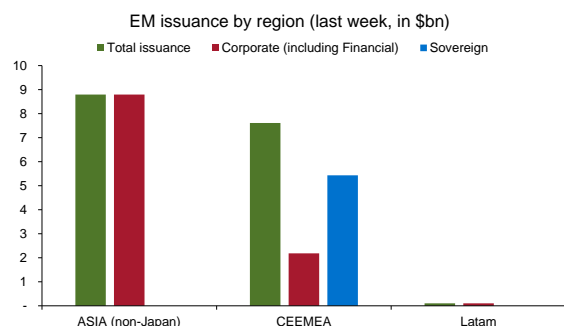
Key Emerging Market Financial Indicators

Last updated: 3/2/21 8:12 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		55.17	-0.7	-1	-1	33	7
MSCI Frontier Equities		29.42	1.9	0	1	5	4
EMBIG Sovereign Spread (in bps)		351	-6	3	0	-21	1
EM FX vs. USD		56.85	0.0	-2	-1	-3	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.47	-0.1	0	0	8	1
Indonesian Rupiah		14325	-0.5	-2	-2	0	-2
Indian Rupee		73.37	0.3	-1	-1	-1	0
Argentine Peso		90.18	-0.1	-1	-3	-31	-7
Brazil Real		5.69	-1.0	-4	-6	-21	-9
Mexican Peso		20.70	-0.2	-1	-3	-6	-4
Russian Ruble		73.77	0.5	1	3	-10	1
South African Rand		15.09	-0.6	-4	-1	2	-3
Turkish Lira		7.33	-0.5	-3	-2	-16	2
EM FX volatility		10.27	0.0	0.4	0.1	1.9	-0.5

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

EM Debt Issuance

EM corporate bond issuance (including financial issuance) was \$11.1 bn last week, from \$1.9 bn the week before. **EM sovereign issuance increased \$5.4 bn last week** while there was no sovereign issuance placed the week before. The year-to-date total issuance of \$178.8 bn was around 6% higher than the 2020 issuance over the same period (\$168.5 bn). From a regional perspective, China was the largest EM corporate debt issuer last week, accounting for 46% (\$5.1 bn) of the total, followed by India (27%, \$2.9 bn), Kenya (\$0.6 bn), and Czech Republic (\$0.6 bn). Last week's sovereign issuance was placed by EMEA countries – Croatia (\$2.4 bn), Saudi Arabia (\$1.8 bn), and Serbia (\$1.2 bn).



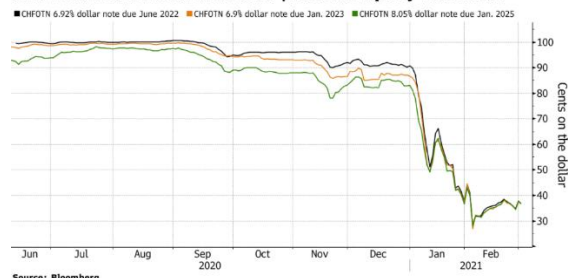
Source: Bond Radar, Bloomberg

China

A top financial regulator warned of financial risks. Guo Shuqing, Head of the China Banking and Insurance Regulatory Commission (CBIRC) said that he is very worried about risks emerging from bubbles in global financial markets and the country's property sector. **China Fortune Land Development has defaulted on a \$530 dollar bond**, which was due last Friday. This is the first default since the Chinese authorities introduced the 'three red line' policy to control leverage of property developers last year. Market participants have priced in the default since the beginning of this year. Spread between AAA- and AA-rated corporate issuers remains stable. **Equities declined (CSI 300: -1.3%)** in response to CBIRC chair Guo's remarks. **RMB depreciated (-0.1%).**

Repayment Woes

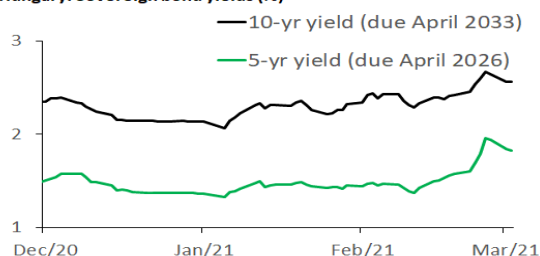
China Fortune Land's dollar bonds under pressure as liquidity woes worsen



Hungary

Sovereign 5-yr bond yields (- 2 bps to 1.82%) edged lower after the central bank offered to buy 5-yr bonds at its weekly QE tender for the first time. Bloomberg reports that the central bank has also bought bonds due 2025 directly on the secondary market. The central bank signaled in January that its bond purchases could move to shorter maturities (compared to purchases of 10-yr maturities previously) as it was reaching legal limits on longer-dated bonds. **The forint and equities were little changed after GDP data showed better-than-expected growth of 1.4% q/q (1.1% expected) in Q4 for a y/y contraction of 3.6% y/y (-3.7% expected).**

Hungary: Sovereign bond yields (%)



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Global Financial Indicators

Last updated: 3/2/21 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3903	2.4	1	2	26	4
Europe		3726	0.5	1	4	12	5
Japan		29408	-0.9	-2	4	38	7
China		3509	-1.2	-4	-1	18	1
Asia Ex Japan		97	2.8	-1	0	40	9
Emerging Markets		55	2.7	-1	-1	33	7
Interest Rates			basis points				
US 10y Yield		1.44	2.4	10	34	28	53
Germany 10y Yield		-0.32	1.6	0	17	31	25
Japan 10y Yield		0.13	-2.7	0	7	25	11
UK 10y Yield		0.76	0.2	4	41	36	56
Credit Spreads			basis points				
US Investment Grade		90	0.2	-1	-5	-39	-5
US High Yield		347	-2.1	-2	-22	-182	-33
Europe IG		48	-0.5	-2	-2	-19	0
Europe HY		245	-1.7	-10	-12	-59	3
EMBIG Sovereign Spread		351	-5.9	3	0	-21	1
Exchange Rates			%				
USD/Majors		91.11	0.1	1	0	-6	1
EUR/USD		1.20	-0.2	-1	0	8	-2
USD/JPY		106.9	0.1	2	2	-1	4
EM/USD		56.9	0.0	-2	-1	-3	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		64	0.3	-2	11	23	23
Industrials Metals (index)		148	1.1	-1	12	41	11
Agriculture (index)		51	-0.4	-2	3	32	7
Implied Volatility			%				
VIX Index (%, change in pp)		23.1	-0.3	-0.1	-2.5	-10.4	0.3
US 10y Swaption Volatility		75.3	-2.7	-1.6	16.0	-26.6	15.2
Global FX Volatility		7.8	0.0	0.3	0.2	0.2	-0.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		132	-2.5	7	15	-76	12
Italy		102	2.9	6	-12	-74	-9
Portugal		57	1.2	0	2	-41	-3
Spain		67	1.3	-1	7	-24	6

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

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Emerging Market Financial Indicators

Last updated: 3/2/2021 8:12 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.47	-0.1	-0.1	0	8	1		3.4	-0.5	0	6	52	9
Indonesia		14325	-0.5	-1.6	-2	0	-2		6.6	-1.7	-3	45	-46	56
India		73	0.3	-1.2	-1	-1	0		6.4	-1.1	3	27	-11	48
Philippines		49	0.1	0.2	-1	4	-1		3.5	0.3	0	-7	-63	-17
Thailand		30	-0.2	-0.9	-1	4	-1		1.8	2.2	12	44	56	50
Malaysia		4.06	0.0	-0.3	0	4	-1		3.0	-2.1	9	35	17	44
Argentina		90	-0.1	-0.7	-3	-31	-7		41.8	26.3	-73	-825	-1031	-1434
Brazil		5.69	-1.0	-4.3	-6	-21	-9		7.4	12.9	48	110	150	182
Chile		725	-0.4	-2.4	1	12	-2		3.0	-7.4	5	27	-63	28
Colombia		3634	-0.5	-1.2	-3	-4	-6		5.5	-3.0	15	40	-20	47
Mexico		20.70	-0.2	-0.8	-3	-6	-4		6.0	-9.0	-2	39	-88	42
Peru		3.7	-0.2	-0.1	0	-6	-1		4.3	2.7	10	49	-17	67
Uruguay		43	-0.3	-0.6	-2	-10	-2		7.0	0.0	3	-20	-293	-23
Hungary		302	-0.1	-2.4	-2	0	-2		2.0	-7.7	17	39	45	48
Poland		3.77	-0.2	-1.6	-1	3	-1		0.9	-5.6	14	27	-74	23
Romania		4.1	-0.2	-1.0	0	7	-2		2.7	-17.0	9	45	-98	0
Russia		73.8	0.5	0.7	3	-10	1		6.5	-3.7	11	50	21	74
South Africa		15.1	-0.6	-3.6	-1	2	-3		9.7	-7.4	-12	18	8	9
Turkey		7.33	-0.5	-3.0	-2	-16	2		13.4	-8.1	13	18	75	34
US (DXY; 5y UST)		91	0.1	1.1	0	-6	1		0.71	1.0	14	27	-24	35

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
								basis points						
China		5350	-1.3	-4	-3	31	3		199	0	-2	-9	30	-9
Indonesia		6359	0.3	1	5	19	6		158	0	-9	-25	-5	-29
India		50297	0.9	1	1	32	5		150	2	-2	-7	-25	-1
Philippines		6920	0.7	2	1	3	-3		83	0	-9	-17	13	-22
Malaysia		1570	0.2	0	-1	7	-4		113	0	-2	-3	9	3
Argentina		48996	1.2	-1	-1	35	-4		1459	0	19	8	-570	91
Brazil		110335	0.3	-4	-7	3	-7		253	0	0	-16	58	3
Chile		4646	1.4	3	5	8	11		126	0	-6	-16	-14	-18
Colombia		1356	-0.3	0	-1	-12	-6		207	0	-4	-15	44	2
Mexico		44785	0.4	0	2	6	2		348	0	-9	-34	55	-12
Peru		22810	1.2	-2	6	23	10		133	0	-4	-3	22	1
Hungary		44867	0.4	4	2	8	7		65	0	-6	-15	-42	-31
Poland		58355	0.6	2	2	16	2		-22	0	-4	-11	-54	-21
Romania		10237	0.1	0	-1	8	4		203	-6	8	3	-35	1
Russia		3409	0.7	-1	1	23	4		159	0	-5	-3	19	-7
South Africa		68455	1.4	4	9	32	15		357	0	-4	-35	25	-23
Turkey		1534	0.5	1	2	43	4		421	0	-5	-47	34	-24
Ukraine		525	0.0	1	1	-2	5		479	0	12	-21	127	-12
EM total		55	-0.7	-1	-1	33	7		421	0	17	-10	97	128

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

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