



- Market participants debate future Fed policy ([link](#))
- Real asset relative valuations at lowest since 1925 ([link](#))
- China projects 5-7% growth through 2025 ([link](#))
- Markets expect further hikes in Mexico despite dovish central bank ([link](#))
- India resumes bankruptcies after COVID-19 freeze ([link](#))
- Chile downgraded by S&P to A from A+ ([link](#))

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## Markets cautious as interest rates edge higher

Asia had a very strong performance overnight as local stocks extended their lead over other regions this year. Asian technology stocks have done especially well under pandemic conditions amidst a surge in demand for semiconductors and other IT products. European equities posted smaller gains and US equity index futures were mixed as investors keep a wary eye on interest rates, which are creeping up again today after several days of declines. Global investors have been on edge recently as US Treasury yields hit post-pandemic highs last week, worried that higher rates threaten asset valuations or signal a surge in inflation that sparks preemptive rate hikes from central banks. Meanwhile, the pandemic continued to spread through South America, and parts of Europe are also struggling with a third wave of infections and low vaccination rates. The UK and US have vaccinated a much larger percentage of their populations. Efforts to unblock the Suez Canal could take up to a week longer, further disrupting global supply chains.

Key Global Financial Indicators

Last updated: 3/26/21 8:01 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		3910	0.5	0	3	49	4
Eurostoxx 50		3856	0.6	0	6	35	9
Nikkei 225		29177	1.6	-2	1	50	6
MSCI EM		52	0.5	-3	-3	47	0
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.67	4.5	-4	27	83	76
Germany 10y Yield		-0.34	4.5	-5	-8	2	23
EMBIG Sovereign Spread		355	0	8	9	-280	5
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		56.1	-0.1	-2	-1	3	-3
Dollar index, (+) = \$ appreciation		92.8	0.0	1	2	-7	3
Brent Crude Oil (\$/barrel)		63.5	2.5	-2	-4	141	23
VIX Index (% change in pp)		19.8	-0.1	-1	-8	-41	-3

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

## United States

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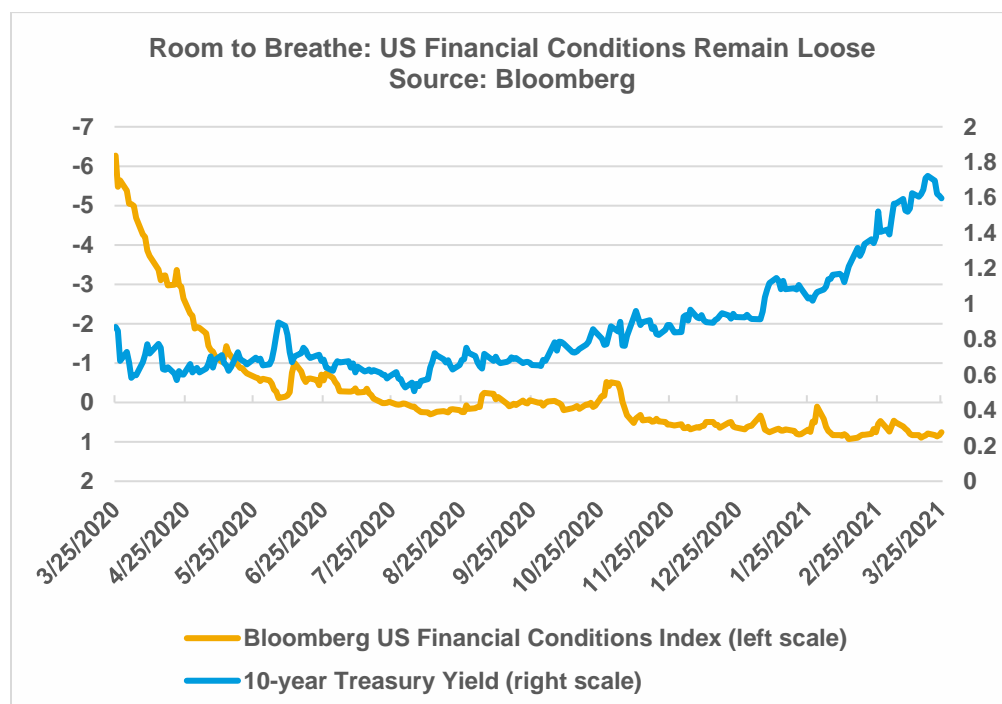
**This highlight of this morning's US data was the core PCE deflator, the Fed's preferred measure of inflation.** The data showed that inflation remains low and still well below the Fed's target of 2%. Treasury yields were slightly lower immediately following the data, but the dollar continued to gain versus the other major currencies.

### Key US Economic Data 8.30 am

Source: Bloomberg

Indicator	Consensus Forecast	Actual Outcome
PCE Deflator	0.3% monthly, 1.6% annualized	0.2%/1.6%
Core PCE Deflator	0.1% monthly, 1.5% annualized	0.1%/1.4%
Personal Income	-7.2%	-7.1%
Personal Spending	-0.8%	-1%

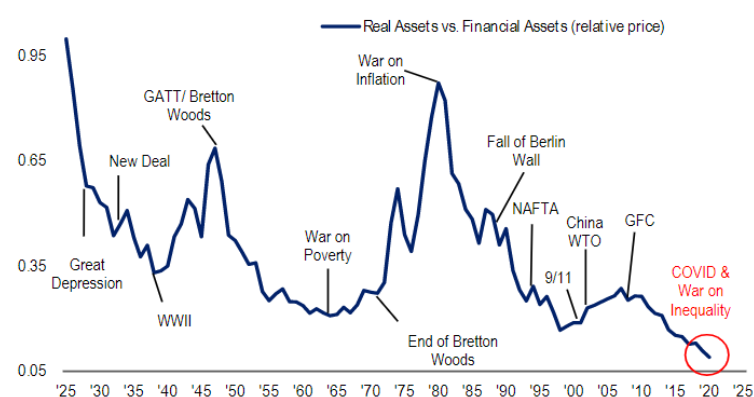
**Markets are starting to price the first Fed rate hikes at the end of 2022 as the benchmark US 10-year Treasury yield hit a post-pandemic intra-day high of 1.75% just a week ago.** The yield curve steepened to multi-year highs, usually a bearish signal for the bond market. However, spiking yields have yet to tighten financial US financial conditions, with equity prices still trading close to record levels, while money market rates still remain low. The pullback in yields and flattening of the yield curve in recent sessions have reignited market debates about future Fed policy actions. HSBC predicts the 10-year yield will end the year at 1%, while Bank of America forecasts 2.15%. JP Morgan thinks the Fed will stay on hold until 2024. Markets have a poor record in predicting future Fed policy, and Fed Chair Powell as aggressively pushed back against the notion that rate hikes are not far away. Much will depend on the progress of the vaccination campaign and the speed of the economic recovery. Meanwhile, the jury remains out on the Fed's timing.



**Valuations of real assets relative to financial assets are at their lowest since 1925, according to research by Bank of America.** Its analysts think that markets have reached a secular turning point for inflation and interest rates, with both variables set to increase significantly in the years ahead. Very large asset purchases by central banks, massive government stimulus packages, measures to fight inequality such as universal basic income (UBI), and less globalization will act to push inflation and interest rates higher. New trends such as higher taxation of technology companies and a revival of unionization will also contribute. The aging population will give workers greater collective bargaining power on wages. As households in advanced economies reduce their debt and governments boost their own debt levels, countries will have the incentive to inflate away their debt burdens. All these factors argue for a greater allocation to real assets.

#### Exhibit 1: All-time lows...real assets relative to financial assets since 1925

Real assets (Commodities, Real Estate, Collectibles) vs. Financial Assets (Large Cap Stocks, Long-term Govt Bonds) since 1925



Source: BoFA Global Investment Strategy, Global Financial Data, Bloomberg, USDA, Savills, Shiller, ONS, Spaenjers, Historic Auto Group.

Note: Real Assets (Commodities, Real Estate, Collectibles) vs. Financial Assets (Large Cap Stocks, Long-term Govt. Bonds)

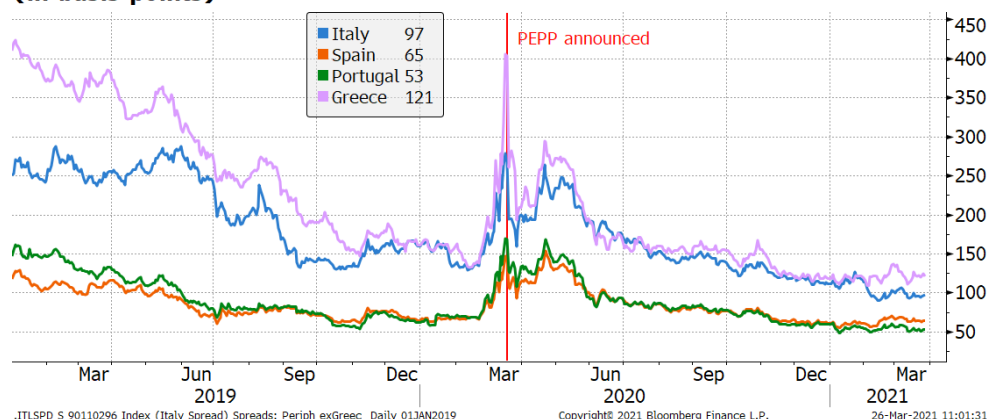
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## Europe

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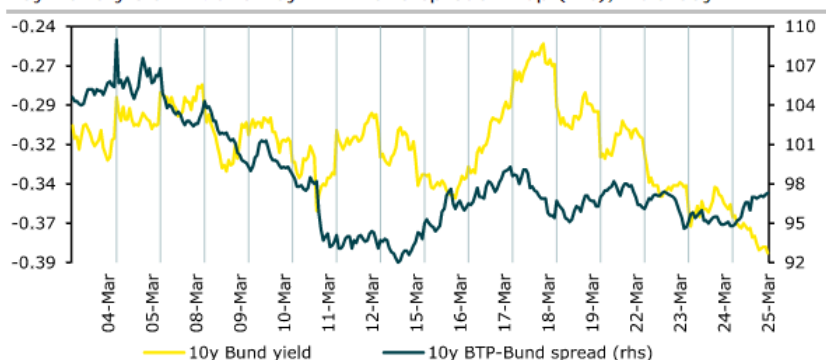
Moves in Sovereign yields mirrored those in the equities market, as a mild risk-on mood pushed bond valuations lower. Throughout recent sessions, sovereign yields across Europe have moved in tandem, leaving spreads to bunds stable but masking some abrupt changes in investors risk sentiment.

### Selected European Sovereign Spreads to 10yr Bunds (in basis points)



**Bunds with larger swings than spreads of late**

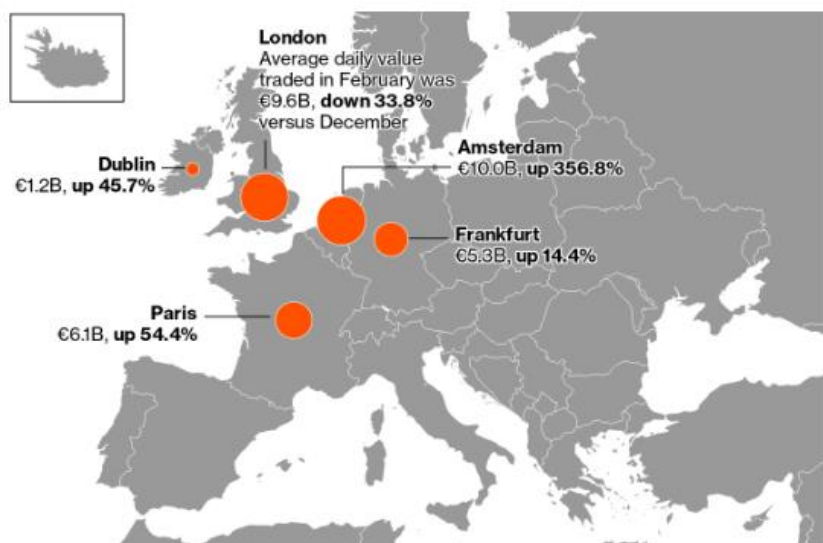
10y Bund yield in % and 10y BTP-Bund spread in bp (rhs), intra-day



Source: Bloomberg, Commerzbank Research

**The London Stock Exchange (LSE) is raising \$4.5 bn of debt in the US and \$2.5 bn in Europe** as part of its financing for the acquisition of Refinitiv, for which it paid \$27 bn. With this move, the LSE is expanding its footprint in the global infrastructure for investors. Since Brexit, various cities have stepped up competition with London to raise their profile as financial centers.

Amsterdam toppled London as Europe's share trading capital after Brexit



Source: Cboe Global Markets

Note: Figures reflect average daily value of shares traded

Bloomberg

**Other Mature Markets**[back to top](#)**Japan**

**The Nikkei equity index rose for a second day by +1.5%, with autos and electronics outperforming.**

The broader TOPIX index is up nearly 10% year-to-date in local currency terms, one of the best performing advanced economy indexes.

Topix trading above five-year average P/E multiple



## Emerging Markets

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Asian and Eastern European equities had a strong day across most markets. **The Turkish lira** (-1.3%) fell below the level of 8 lira per U.S. dollar as contacts worry that a pick-up in local demand for U.S. dollars will keep the lira under pressure even if financing conditions ease. **The South African Reserve Bank (SARB)** unanimously decided to leave rates unchanged at 3.5% yesterday, but forward rates continue to price in a further 100 bps of hikes this the year. The **Chilean Peso** declined by as much as 1.1% amid a flurry of negative headlines (e.g. S&P cut Chile's rating to by one notch to single A, the government announced a full lockdown in Santiago as COVID cases climb and copper fell to a five week low).

Key Emerging Market Financial Indicators

Last updated: 3/26/21 8:04 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		51.92	1.1	-3	-3	47	0
MSCI Frontier Equities		28.97	-0.8	-1	0	32	2
EMBIG Sovereign Spread (in bps)		355	0	8	9	-280	5
EM FX vs. USD		56.12	-0.1	-2	-1	3	-3
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.54	0.0	-1	-1	8	0
Indonesian Rupiah		14418	0.1	0	-1	13	-3
Indian Rupee		72.52	0.2	0	1	4	1
Argentine Peso		91.77	-0.2	-1	-2	-30	-8
Brazil Real		5.66	-0.2	-3	-1	-11	-8
Mexican Peso		20.69	0.0	-1	1	11	-4
Russian Ruble		76.05	0.2	-3	-2	2	-3
South African Rand		15.04	-0.2	-2	1	15	-2
Turkish Lira		8.04	-1.1	-10	-8	-20	-7
EM FX volatility		11.02	0.0	0.7	0.3	-1.1	0.3

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

## China

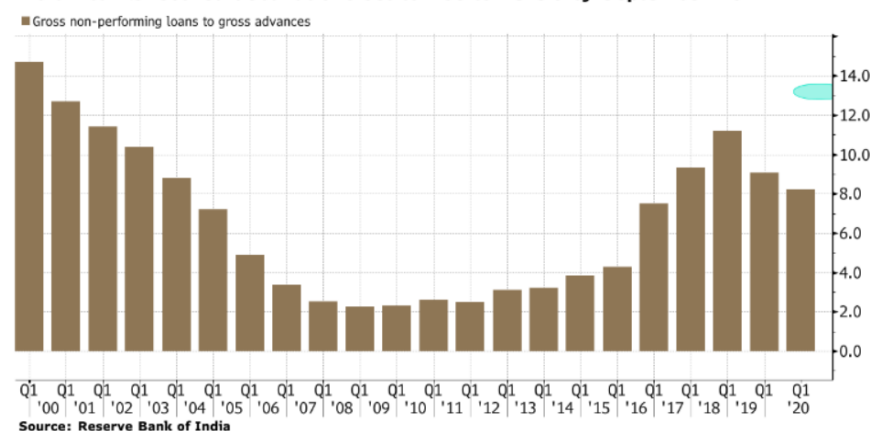
The People's Bank of China (PBOC) said that potential growth was projected at 5% - 5.7% in the period covering the government's five-year plan through 2025, according to Bloomberg. Traditional large-scale fiscal and monetary stimulus policy will not be able to lift real GDP higher. Such stimulus would result in inflation and a rapid increase in the debt ratio, posing systemic risks to the economy. **Separately, China's State-owned Assets Supervision and Administration Commission asked local branches to strengthen oversight and control of debt risk of state-owned enterprises.** According to Bloomberg, local officials are to pay close attention to debt delinquency risk at firms with low credit ratings, tight cash flows, severe operating losses, and large bond maturities. For borrowers facing repayment difficulties, local

authorities could use measures such as maturity extension and bond swaps to reduce risks. Those that fall into bankruptcy have to comply with relevant proceedings. **The PBOC also said in a panel discussion that its planned digital currency will co-exist with technology platforms by Alibaba and Tencent.** One of the key reasons for the central bank to develop its own electronic yuan was to serve as a back-up to Alipay and WeChat pay, which account for 98% of China's mobile payment market. Other reasons include protecting its monetary sovereignty, enhancing the efficiency of payments systems, and promoting financial inclusion.

## India

**India resumed bankruptcy filings after an executive order halting bankruptcy proceeding expired on March 25.** This followed a court ruling earlier this week that allowed banks to resume classifying bad debt. The Reserve Bank of India expects non-performing assets to rise to 13.5% of total advances by end-September versus 7.5% a year ago, according to its semiannual Financial Stability Report published in January.

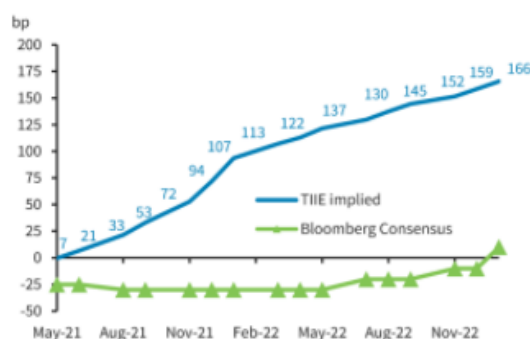
### Indian banks' soured debt ratio is set to rise to 13.5% by September 2021



## Mexico

**Banxico unanimously decided to keep its policy rate unchanged at 4.0%, in line with expectations.** While the statement didn't explicitly close the doors to further cuts, it removed previous references to a "pause". **There is large divergence between analysts' expectations of policy rates and market implied rates.** This suggests there is a significant buildup of term premia in the short end of the yield curve. Most analysts expect that the rate cutting cycle is over and Banxico will stay on the sidelines in 2021 with some

Figure 1. The market is pricing a steep normalization path for Banxico



Source: Bloomberg, Barclays Research

Figure 2. Rates have risen above the level implied by fundamentals



Note: We fit the 10y Mbono rate as a function of 1y-ahead forecasts for inflation, short rates, growth, FX, fiscal balance and current indicators of risk (CDS, US term premium). Monthly data, sample begins in 2008

Source: Bloomberg, Barclays Research

risks for rate hikes later in the year. In comparison, the market is pricing-in almost 100bps of hikes in 2021. Most of these market expectations have been built up recently following the more hawkish guidance from BCB (Brazil) and CBR (Russia) as well as the turmoil in Turkish markets. The 2y TIE swap rate has increased by almost 60bps over the last week during a period that US rates have moved very little.



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## Global Financial Indicators

Last updated: 3/26/21 8:03 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
			%				%
United States		3907	0.5	0	3	49	4
Europe		3856	0.6	0	6	35	9
Japan		29177	1.6	-2	1	50	6
China		3418	1.6	0	-3	23	-2
Asia Ex Japan		90	0.5	-3	-4	47	1
Emerging Markets		52	0.5	-3	-3	47	0
Interest Rates							
			basis points				
US 10y Yield		1.67	4.1	-5	27	83	76
Germany 10y Yield		-0.34	4.4	-5	-8	2	23
Japan 10y Yield		0.08	-0.3	-3	-8	8	6
UK 10y Yield		0.77	4.5	-6	-5	38	58
Credit Spreads							
			basis points				
US Investment Grade		98	-0.7	-3	6	-215	3
US High Yield		352	-2.4	-11	-5	-605	-28
Europe IG		54	-0.4	7	3	-32	6
Europe HY		269	-2.6	24	4	-253	27
Exchange Rates							
			%				
USD/Majors		92.84	0.0	1	2	-7	3
EUR/USD		1.18	0.1	-1	-2	7	-4
USD/JPY		109.8	0.5	1	3	0	6
EM/USD		56.1	-0.1	-2	-1	3	-3
Commodities							
			%				
Brent Crude Oil (\$/barrel)		64	2.6	-2	-4	141	23
Industrials Metals (index)		145	1.5	-1	-1	58	9
Agriculture (index)		51	0.3	-1	-2	35	6
Implied Volatility							
			%				
VIX Index (% change in pp)		19.8	-0.1	-1.2	-8.2	-41.2	-3.0
US 10y Swaption Volatility		77.4	1.1	-10.4	-11.7	-25.5	17.3
Global FX Volatility		7.9	0.0	0.2	-0.4	-3.6	-0.1
EA Sovereign Spreads							
			10-Year spread vs. Germany (bps)				
Greece		121	-2.8	0	-16	-80	2
Italy		98	1.1	2	-5	-61	-14
Portugal		53	0.0	1	-4	-54	-7
Spain		65	0.3	1	-3	-28	3

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

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## Emerging Market Financial Indicators

Last updated: 3/26/2021 8:06 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		6.54	0.0	-0.5	-1	8	0		3.3	-1.4	-4	-6	57	3
Indonesia		14418	0.1	-0.1	-1	13	-3		6.7	0.1	-8	10	-172	64
India		73	0.2	0.0	1	4	1		6.4	0.0	-13	-2	-31	44
Philippines		49	0.2	0.3	0	5	-1		3.8	-5.4	-17	37	-95	20
Thailand		31	0.2	-0.9	-2	5	-4		1.9	1.0	-10	14	30	62
Malaysia		4.15	0.0	-0.9	-2	4	-3		3.3	-0.2	-8	33	-36	71
Argentina		92	-0.2	-0.5	-2	-30	-8		45.7	28.6	12	418	-2475	-1041
Brazil		5.66	-0.2	-3.0	-1	-11	-8		8.1	-20.6	55	92	110	251
Chile		726	0.1	-1.4	0	14	-2		3.4	3.9	10	22	-43	60
Colombia		3663	-0.5	-3.0	-2	11	-6		6.4	1.3	27	79	-76	132
Mexico		20.69	0.0	-0.9	1	11	-4		6.8	-8.6	30	64	-109	117
Peru		3.7	-0.3	-0.7	-2	-7	-3		4.6	2.3	3	34	-44	99
Uruguay		44	-0.3	0.1	-2	-1	-5		7.4	2.5	9	41	-617	18
Hungary		309	0.3	0.1	-3	4	-4		2.0	-1.9	-12	-12	32	44
Poland		3.94	0.0	-1.6	-5	4	-5		0.8	-2.5	-5	-5	-51	21
Romania		4.2	0.1	-1.1	-3	6	-4		2.6	-2.0	-6	-17	-156	-12
Russia		76.0	0.2	-2.6	-2	2	-3		6.8	-7.8	13	41	-14	110
South Africa		15.0	-0.2	-2.2	1	15	-2		10.4	10.6	6	54	-125	72
Turkey		8.04	-1.1	-10.2	-8	-20	-7		18.1	2.9	361	460	559	503
US (DXY; 5y UST)		93	0.0	1.0	2	-7	3		0.86	2.1	-3	12	33	49

	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	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		5038	2.3	1	-6	36	-3		199	0	-2	-9	30	-9
Indonesia		6196	1.2	-3	-1	36	4		158	0	-9	-25	-5	-29
India		49009	1.2	-2	0	64	3		153	2	-4	5	-302	2
Philippines		6545	-0.6	2	-4	24	-8		83	0	-9	-17	13	-22
Malaysia		1601	0.2	-2	2	19	-2		113	0	-2	-3	9	3
Argentina		46856	0.0	-6	-3	84	-9		1459	0	19	8	-570	91
Brazil		113750	0.0	-1	3	46	-4		253	0	0	-16	58	3
Chile		4768	0.0	-2	4	48	14		126	0	-6	-16	-14	-18
Colombia		1320	0.0	0	-3	13	-8		207	0	-4	-15	44	2
Mexico		47012	0.0	-1	5	32	7		348	0	-9	-34	55	-12
Peru		21254	0.0	-5	-6	47	2		133	0	-4	-3	22	1
Hungary		44173	0.0	0	1	34	5		65	0	-6	-15	-42	-31
Poland		57066	1.1	-1	0	38	0		-22	0	-4	-11	-54	-21
Romania		10938	-0.1	1	7	43	12		191	-1	-1	-6	-203	-12
Russia		3485	1.3	0	4	40	6		159	0	-5	-3	19	-7
South Africa		66378	2.5	-1	0	47	12		357	0	-4	-35	25	-23
Turkey		1365	-2.1	-11	-7	49	-8		421	0	-5	-47	34	-24
Ukraine		517	0.0	0	-1	1	3		479	0	12	-21	127	-12
EM total		52	1.1	-3	-3	47	0		421	0	17	-10	97	128

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

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