GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, MARCH 20, 2025

LEAD EDITOR: SANJAY HAZARIKA

- **Markets reverse post-Fed rally** (link)
- **Chinese banks hold benchmark rates steady for fifth month** (link)
- **Euro area stocks sell off on tariff fears** (link)
- **US credit spreads hold steady despite market turbulence** (link)
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Markets in retreat as optimism fades

The strong rally after yesterday's dovish Fed meeting is fading as European stocks take a hit on worries about the economy and US equity index futures start the day in the red. The initial optimistic reaction is giving way to greater pessimism as market participants focus on the extreme uncertainty repeatedly highlighted by Fed Chair Powell at the press conference. Stocks in China were also lower and equities in Hong Kong SAR fell sharply, probably due to profit taking after the recent tech rally there. Government bond yields in the US, euro area and China also declined across the board as challenges to growth and the threats of economic harm from tariffs cloud the outlook. The Bank of England stayed on hold with little market reaction. The Swiss National Bank cut by 25 bps to 0.25% to deter further appreciation of the franc, while the Riksbank stayed on hold and indicated that its easing cycle is over. Brazil hiked to 14.25%, the highest since 2016 due to continued inflationary pressure.

Key Global Financial Indicators

Last updated: 3/20/25 7:54 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5675	1.1	1	-7	9	-4
Eurostoxx 50		5447	-1.1	2	0	9	11
Nikkei 225		37752	-0.2	3	-3	-8	-5
MSCI EM		45	0.2	3	0	10	8
Yields and Spreads					bps		
US 10y Yield		4.20	-4.4	-7	-31	-7	-37
Germany 10y Yield		2.76	-4.4	-10	23	33	39
EMBIG Sovereign Spread		334	2	4	19	-22	9
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		44.9	-0.4	0	1	-4	5
Dollar index, (+) = $ appreciation		103.9	0.5	0	-2	1	-4
Brent Crude Oil ($/barrel)		71.0	0.3	2	-7	-17	-5
VIX Index (%, change in pp)		20.5	0.6	-4	5	7	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

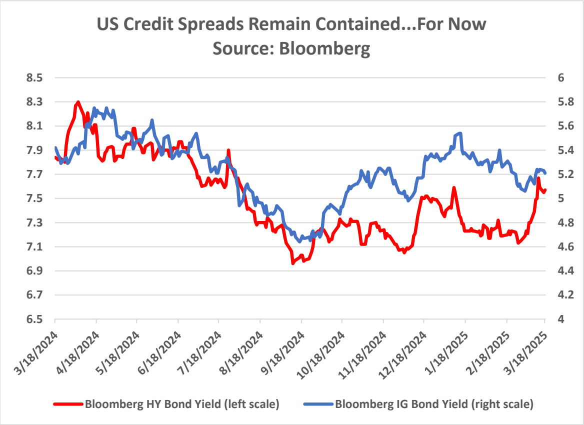
US markets reversed yesterday's rally as investors focused on the uncertainties repeatedly highlighted by Fed Chair Powell at the press conference. The Fed statement was viewed as dovish, causing stocks to rally yesterday and enabling Treasuries to reverse earlier losses after the news. The dollar weakened against the euro and the Yen. In the press conference, Fed Chair Powell said that the risk of recession was still low, although survey estimates have moved slightly higher. He noted that the FOMC expected inflation to fall to its 2% target in 2026 and 2027, while repeatedly flagging the high level of uncertainty about the economy. He mentioned that the last two PPI reports were much stronger than expected, perhaps due to front running ahead of tariffs. The market extended its rally through the course of the press conference.

FOMC Meeting: Key Details
Source: Federal Reserve

Variable	Previous Estimate (December)	Latest Estimate
Dot plot	Two rate cuts in 2025	Unchanged
Long Run Fed Funds Rate	3%	Unchanged
GDP 2025	2.1%	1.7%
End 2025 Inflation	2.5%	2.8%
End 2025 Unemployment Rate	4.3%	4.4%

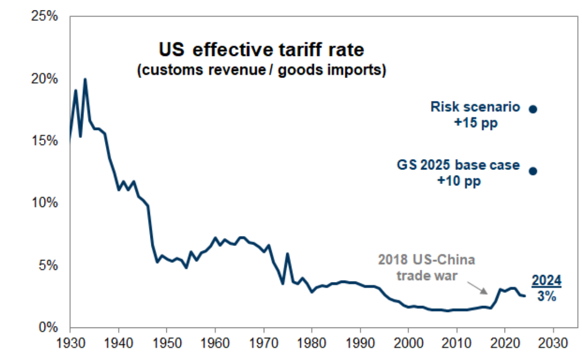
The FOMC slowed quantitative tightening (QT) starting on April 1st, lowering the cap on maturities to $5 bn from $25 bn, while keeping the cap of $35 bn on agency and agency mortgage backed securities (MBS) at $35 bn. Governor Waller dissented, preferring to keep QT at its current level.

US credit spreads have held steady despite the recent market turbulence. While the S&P 500 fell into a correction by falling more than 10%, the Bloomberg US Corporate Investment Grade (IG) Bond index yield went up by just 13 bps. Even more surprisingly, the Bloomberg US Corporate High Yield (HY) index yield went up by less than 20 bps. Historically, US corporate bond yields rise much more sharply when equities experience a large decline. However, on this occasion, market conditions remained orderly both in the equity market and the bond market. Issuers withdrew new bond deals on March 13 but came back to the market at the beginning of this week, and bond sales have been robust. US corporate balance sheets are in good health, and companies in the HY segment have much better credit profiles than they did in the past. However, markets remain vulnerable to adverse news headlines in areas such as tariffs. Further selloffs in the equity market could provide challenges for the corporate bond market if conditions deteriorate.



US tariffs are expected to rise significantly this year, according to analyst predictions, with a significant hit likely to hit US corporate earnings. Goldman estimates that the average tariff rate will go up by 10% from the current level of 3% in the base case and by 15% to 18% its risk scenario. The analysts forecast that every 5% increase in tariffs hits S&P 500 earnings per share (EPS) by 1-2%, with the assumption that all tariffs are passed through to consumers. The base case forecasts a 1-2% hit to the EPS, but the risk scenario will result in an additional 1-2% hit to EPS. These estimates incorporate expectations of a major reduction in GDP due to the tariffs, down to 1.7% in Q4 2025 from 2.2% previously. Goldman has revised its year-end target for the S&P 500 to 6200 from 6500 previously.

Exhibit 4: GS Economics expects the US tariff rate to rise by 10 pp



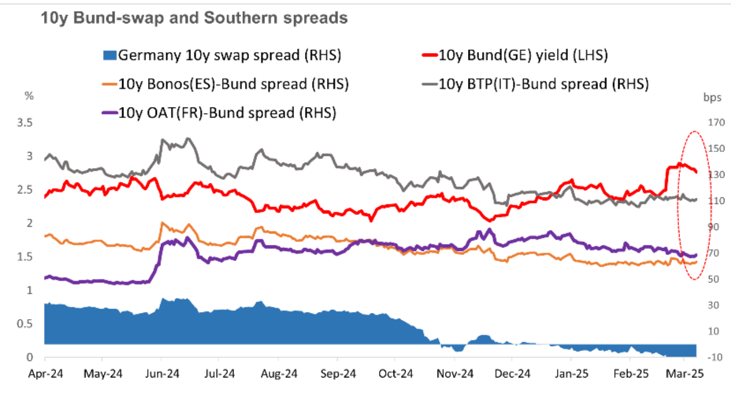
Source: BEA, Goldman Sachs Global Investment Research

Europe

European stocks edged lower this morning, as investors reportedly grew doubts on yesterday's perceived dovish tone from the Fed and after ECB President Lagarde restated today that the ECB is unable to make commitments on the path of interest rates due to elevated uncertainty over trade**. Lagarde cited an ECB analysis showing that a US tariff of 25% on European imports would lower the region's economic growth by about -0.3% in the first year, with possible EU retaliatory measures adding another -0.5% reduction.** The STOXX 600 index was down by -0.7% with most sectors trading in the red and the banking sector underperforming (-1.8%). European bourses were all down with Italy (FTSE MIB -1.5%) and Germany (DAX -1.4%) losing the most.

The euro closed yesterday marginally higher after the Fed meeting bu**t weakened this morning** (-0.5%) against the dollar**,** trading at around $1.0843/€. Analysts at Deutsche Bank see markets refocusing on the US tariffs that will be announced on April 2 and remain optimistic about the euro as analysts expect retaliatory measures from the rest of the world to be negative for the dollar.

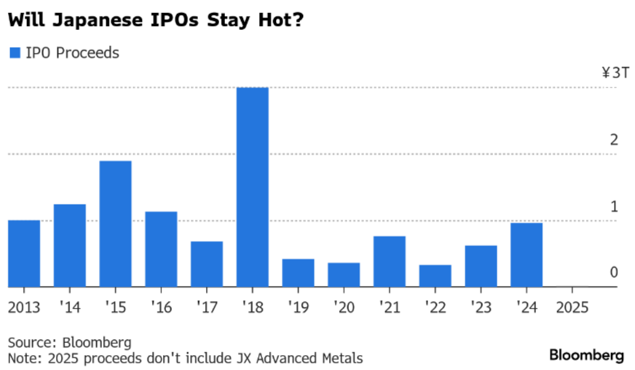
European government bond yields edged lower by about -4bps **this morning across tenors,** with the 10y Bund yields down to 2.75% and the 2y Bund yields at 2.15%. The spread between the yields of 10y French OAT and the 10y Bund, and the 10y Italian BTP vis-à-vis the Bund increased marginally to 69bps and 112 bps respectively. Crédit Agricole views Germany's fiscal stimulus positively, projecting it could lift German GDP growth by 50-150bps, adding 70bps for France and 60bps for Italy by 2027–28. Deutsche Bank highlights significant uncertainty due to potential US tariffs and increased defense spending, suggesting these could ultimately push the ECB's terminal rate higher, from a baseline of 2.25% to possibly 2.75% by 2027.



Source: Bloomberg and IMF calculations

Japan

JX Advanced Metals Corp. raised ¥439 bn ($2.9 bn) in its IPO yesterday, the largest since SoftBank's over six years ago, potentially encouraging other companies to pursue public offerings. On its debut, JX's stock rose 6.6%, closing at ¥874, above the IPO price of ¥820, which was at the high end of its marketed range. The IPO was over three times oversubscribed, attracting significant interest from foreign investors (five times the allocated shares) and domestic retail investors (three times the available shares). JX's focus on semiconductor materials positions it well amid ongoing demand for AI-related products. Analysts noted that JX's strong debut exceeded expectations and reflected solid investor sentiment, despite recent selloffs in semiconductor stocks. Bloomberg estimated that the IPO market has seen reduced activity in 2025, with only six deals totaling ¥12.6 bn so far, contrasting sharply with 2024's high of ¥961 bn. Today, the yen was unchanged while the stock market was closed for a holiday.



Emerging Markets

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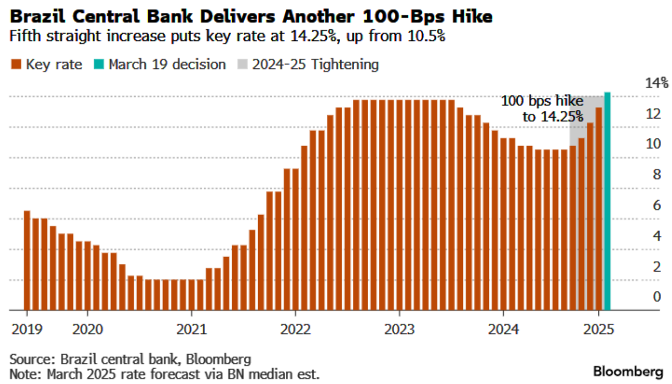
EMEA equities were mixed while currencies weakened as markets digested the US Federal Reserve's decision. Bloomberg reports that Ukrainian President Zelenskiy has agreed to a proposed mutual halt to strikes on energy infrastructure. **EM Asian stocks declined (EM Asia: -0.3%), led by Hong Kong SAR declined (HSI: -2.2%) likely due to profit taking from a recent tech rally.** Indonesian stocks rebounded (+1.1%) for the second day following Tuesday's tumble. Asian currencies broadly appreciated against the dollar, led by the Indonesian rupiah (+0.3%) and the Malaysian ringgit (+0.3%), fueled by hopes for Fed rate cuts. **Latin American equities advanced and currencies weakened.** Stocks gained in Brazil (+0.8%), Mexico (+0.5), and Peru (+0.4%), while Colombia's equity market declined by 0.4%. Currencies depreciated in Mexico (-0.8%) and Colombia (-1.1%), while the Brazilian real strengthened 0.4% against the US dollar.

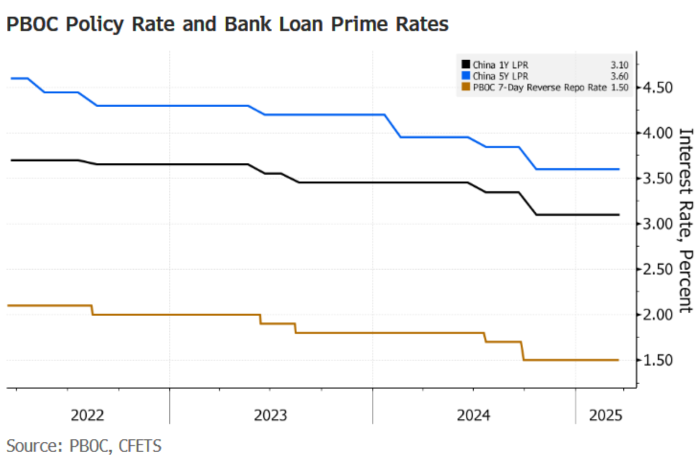
Brazil

Brazil's central bank raised its benchmark Selic rate by a full percentage point to 14.25%, the highest level since 2016. It is the third consecutive hike of this magnitude. The bank has tightened by 3.75 percentage points over five meetings. Policymakers signaled a smaller rate hike at the next meeting, contingent on economic data and inflation forecasts. In their statement, they acknowledged that inflation projections remain elevated and increasingly unanchored above target, even as the economy and labor market show resilience. Despite tighter monetary policy, inflation remains high, with consumer prices rising 1.31% in February, pushing annual inflation to 5.06%.



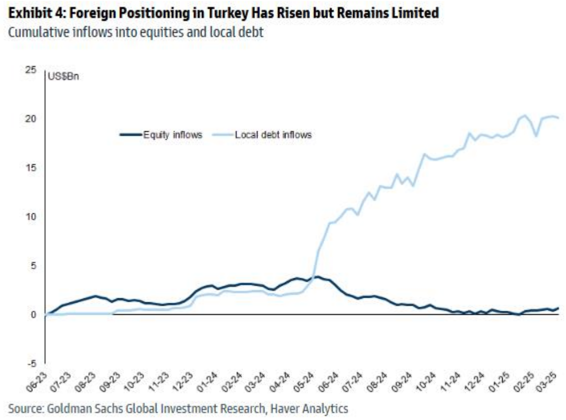
China

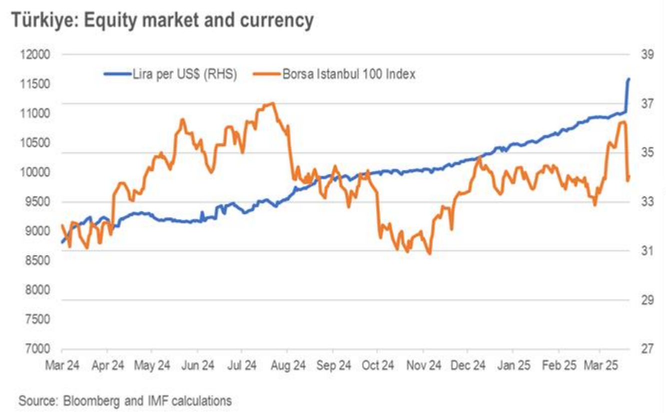
Commercial banks have decided to maintain the one-year Loan Prime Rate (LPR) at 3.10% and the five-year LPR at 3.60% for the fifth month, as expected. This cautious stance reflects banks' reluctance to cut rates until the PBOC acts. The last adjustments, a 25-bp reduction for both LPRs, occurred in October following a PBOC rate cut in September. Given the PBOC's apparent wait-and-see approach, analysts predict that potential rate cuts may be deferred until May, allowing for a clearer assessment of the impact of tariffs and stimulus measures. Expectations suggest that banks could significantly lower the five-year LPR this year to reduce costs for mortgage borrowers, addressing the ongoing slump in the real estate market, which remains a top priority for the government. However, banks face pressure on profitability due to record-low net interest margins, complicating their ability to further reduce lending rates. Today, Chinese government bonds rebounded, as the 10y CGB yield declined by 4 bps to 1.83%, following the PBOC's liquidity injection of RMB 973.2 bn ($134.6 bn) via short-term policy loans in the last four days. Meanwhile, the stock market declined both onshore (CSI 300: -0.9%) and offshore (HSCEI: -2.3%), underperforming the region as investors await additional market catalysts. The RMB remained stable against the dollar.



Türkiye

Turkish assets show some signs of stabilization after yesterday's selloff. Yesterday Turkish stocks and currency sold off sharply following reports that Istanbul's mayor had been arrested. The Borsa Istanbul 100 equity index declined by about 8% while the Turkish lira initially depreciated by more than 10% but recovered somewhat in later trade to close around 3% weaker against the dollar, with Bloomberg reporting that Turkish lenders sold roughly $8bn until midday yesterday to limit currency volatility. This morning Turkish assets recovered somewhat with equities roughly 1% higher, the yield on 10-year local currency bonds fell by 107 bps to 27.6% while the lira was marginally weaker against the dollar (-0.3% at 38.00). The central bank has said that it would commence lira-settled forward currency sales to balance liquidity in the market and avoid possible exchange rate swings, while Bloomberg reports that a decision from the market regulator to ease buyback rules also supported Turkish equities. Goldman Sachs analysts expect political risks to deter foreign investment.





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Global Financial Indicators

3/20/25 7:55 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
United States		5,675	1.1	1.4	-7.2	8.6	-4
Europe		5,447	-1.1	2.2	-0.3	8.9	11
Japan		37,752	-0.2	2.5	-2.6	-7.5	-5
China		3,975	-0.9	1.6	-0.1	11.0	1
Asia Ex Japan		77	0.3	2.5	0.5	13.4	7
Emerging Markets		45	0.2	2.9	0.4	10.0	8
Interest Rates				basis points			
US 10y Yield		4.2	-4	-7	-31	-7	-37
Germany 10y Yield		2.8	-4	-10	23	33	39
Japan 10y Yield		1.5	0	-3	7	78	42
UK 10y Yield		4.6	-7	-11	-4	55	0
Credit Spreads				basis points			
US Investment Grade		124	-2	-5	14	4	5
US High Yield		357	-2	3	49	9	29
Exchange Rates				%			
USD/Majors		103.9	0.5	0.1	-2.3	0.5	-4
EUR/USD		1.08	-0.5	0.0	3.3	-0.7	5
USD/JPY		148.5	-0.1	0.5	-0.8	-1.8	-6
EM/USD		44.9	-0.4	0.4	0.9	-4.0	5
Commodities				%			
Brent Crude Oil ($/barrel)		71.0	0.3	1.6	-6.7	-10.0	-4
Industrials Metals (index)		155.7	0.3	1.0	4.0	10.4	11
Agriculture (index)		58.2	-0.1	0.2	-5.3	-2.4	2
Implied Volatility				%			
VIX Index (%, change in pp)		20.5	0.6	-4.2	4.8	7.5	3.1
Global FX Volatility		8.2	0.0	-0.1	0.2	1.7	-1.0
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		80	1	-5	-4	-19	-5
Italy		112	2	-3	3	-17	-4
France		69	2	-1	-4	25	-14
Spain		64	2	-1	2	-18	-6

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

Emerging Market Financial Indicators

Last updated: 3/20/2025 8:01 AM	Exchange Rates Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Local Currency Bond Yields (GBI EM) Level Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		7.24	-0.2	0.0	0.0	-0.6	0.8		2.0	0	5	23	-40	26
Indonesia		16485	0.3	-0.3	-0.9	-4.6	-2.1		6.9	4	9	19	27	-8
India		86	0.1	0.7	0.3	-3.7	-0.9		6.7	-5	-8	-44	-55	-64
Philippines		57	0.1	0.3	1.3	-1.9	1.3		5.1	-3	-4	-2	-32	25
Thailand		34	-0.4	-0.1	-0.6	6.6	1.8		2.2	-3	-4	-18	-42	-15
Malaysia		4.42	0.3	0.2	0.1	7.1	1.1		3.7	-1	-2	-6	-13	-7
Argentina		1069	-0.1	-0.3	-1.0	-20.2	-3.5		33.0	-157	152	564	-2416	379
Brazil		5.66	-0.2	2.5	0.8	-12.2	9.1		14.6	0	-30	-20	412	-134
Chile		921	-0.4	1.6	2.4	5.0	8.2		5.7	0	3	-26	-1	-1
Colombia		4162	-1.1	-1.3	-1.5	-6.9	5.8		12.0	14	42	41	202	19
Mexico		20.17	-0.5	-0.4	0.7	-17.3	3.2		9.4	-8	-22	-55	-9	-97
Peru		3.6	0.2	1.2	2.0	2.2	3.8		6.4	0	-6	-8	-61	-23
Uruguay		42	-0.1	0.5	2.3	-9.0	3.4		9.6	-1	-9	-12	59	-7
Hungary		368	-0.7	0.1	4.1	-2.1	8.0		6.9	5	8	41	42	48
Poland		3.87	-0.7	-0.2	2.5	2.1	6.8		5.5	2	-9	-3	25	-5
Romania		4.6	-0.5	0.0	3.3	-0.7	4.7		7.3	1	7	-6	81	2
Russia		84.6	-0.6	2.0	4.9	9.4	34.2							
South Africa		18.2	-0.5	0.6	0.7	2.7	3.4		10.7	0	10	3	-121	27
Türkiye		38.00	-0.3	-3.6	-4.5	-14.8	-7.0		31.3	251	284	264	58	154
US (DXY; 5y UST)		104	0.4	0.0	-2.4	0.5	-4.3		3.98	-4	-5	-36	-26	-40

	Equity Markets Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Bond Spreads on USD Debt (EMBIG) Level Last 12m	Latest	Change (in basis points) 7 Days	30 Days	12 M	YTD
								basis points					
China		3,975	-0.9	1.6	-0.1	11.0	1.0		103	1	10	-46	7
Indonesia		6,382	1.1	-4.0	-6.2	-13.0	-9.9		118	15	25	15	27
India		76,348	1.2	3.1	1.4	5.1	-2.3		107	2	17	-1	21
Philippines		6,323	0.2	1.3	3.7	-9.2	-3.2		98	4	11	9	19
Thailand		1,182	-0.7	1.9	-5.2	-14.8	-15.6						
Malaysia		1,504	-0.9	1.3	-5.5	-2.4	-8.4		81	0	12	-5	11
Argentina		2,392,030	4.5	5.2	-0.8	101.8	-5.6		767	46	47	-766	130
Brazil		132,508	0.8	7.0	3.8	2.6	10.2		229	-1	14	15	-18
Chile		7,595	0.1	1.9	3.7	16.8	13.2		126	3	8	0	13
Colombia		1,617	-0.4	1.6	-1.1	23.6	17.2		330	3	17	34	4
Mexico		53,061	0.5	3.0	-2.3	-6.3	7.2		305	-12	6	-20	-7
Peru		30,033	0.3	4.2	2.8	1.0	3.7		147	4	8	5	6
Hungary		90,014	0.0	3.9	2.3	36.4	13.5		165	14	20	11	10
Poland		97,394	-1.1	2.6	4.8	22.2	22.4		121	6	13	23	9
Romania		17,366	0.4	0.0	-2.0	5.4	3.9		256	8	17	68	21
South Africa		90,010	-0.2	3.4	1.3	24.3	7.0		322	4	20	-29	29
Türkiye		9,949	0.9	-7.3	1.4	11.1	1.2		296	19	37	-31	37
EM total		45	-1.1	2.9	0.4	10.0	8.1		378	5	11	70	13

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

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