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- **Speculators cut long dollar positions** ([link](#))
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- **China's strategic retaliation to US tariffs raises hopes for negotiation** ([link](#))
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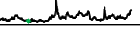
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## Markets Retreat as Tariffs Take Effect

**Global equities sold off as the US administration imposed tariffs on major trade partners.** US imports from Canada and Mexico were hit with a 25% tariff that went into effect today. The US also imposed an additional 10% levy on Chinese imports on top of a 10% tariff imposed last month. The new tariffs apply to about \$1.5 tn in annual US imports, according to analysts. Canada hit back and unveiled 25% tariffs on \$107 bn worth of imports from the US, starting with \$21 bn of imports immediately, and is also reportedly considering non-tariff retaliatory measures related to critical minerals and energy. Mexican president Sheinbaum said Mexico plans to retaliate with tariff and non-tariff measures but has not detailed specifics yet. China imposed tariffs of up to 15% on US agricultural exports. Advanced economy sovereign bond yields fell and gold rose on the rising risk aversion. The dollar weakened, however, as speculators continued to cut long dollar positions. Across the pond, European defense and aerospace stocks outperformed as they EU proposed extending €150 bn in loans to boost defense spending. The EU also announced plans to activate a mechanism allowing countries to spend an additional €650 bn on defense over 4 years without triggering budgetary penalties. In emerging markets, equities fell in aggregate but most currencies appreciated on the dollar weakness, with the Mexican peso (-0.5%) underperforming.

Key Global Financial Indicators

Last updated: 3/4/25 8:07 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				
S&P 500		5850	-1.8	-2	-3	14	-1
Eurostoxx 50		5415	-2.3	-1	3	10	11
Nikkei 225		37331	-1.2	-2	-4	-7	-6
MSCI EM		43	-0.9	-3	-1	6	2
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.14	-1.3	-15	-37	-7	-43
Germany 10y Yield		2.47	-2.3	1	7	8	10
EMBIG Sovereign Spread		331	3	9	14	-37	6
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		44.2	0.4	-1	1	-5	3
Dollar index, (+) = \$ appreciation		105.9	-0.7	0	-2	2	-2
Brent Crude Oil (\$/barrel)		70.3	-1.8	-4	-8	-15	-6
VIX Index (% change in pp)		24.1	1.4	5	7	11	7

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

## Mature Markets

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### United States

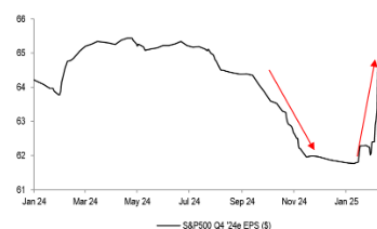
**Corporate earnings remained strong in Q4 2024.** With over 90% of companies having reported in the S&P 500, Q4 2024 earnings continue to show robustness. 75% of companies beat earnings estimates, and EPS growth stands at a solid 13%. Importantly, EPS estimates have recovered from the cuts to forecasts that took place before of the earnings season. European stocks fared slightly worse, with 70% reporting and 58% earnings beats, while EPS growth remains tepid at 2% y/y. In Japan, 20% EPS growth should provide support to the equity market. Despite the differential in earnings results, the US outperformance vs. Europe seems to have reversed over the last month with the EuroStoxx outperforming the S&P by 7%.

#### Q4 '24 Results snapshot

	SPX	SXXP	SXXE	TPX
% cos reported	91%	70%	61%	76%
% cos beating EPS	75%	58%	63%	59%
EPS %y/y	13%	2%	2%	20%
% cos beating Sales	55%	67%	66%	49%
Sales %y/y	5%	1%	0%	4%

Source: Bloomberg Finance L.P., J.P. Morgan

Figure 3: S&P500 blended Q4 '24e EPS



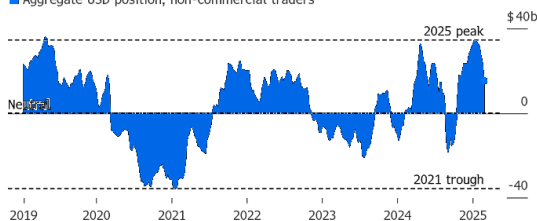
Source: Thomson Reuters

**Speculators cut long dollar positions to least since late October.** The dollar index (DXY) weakened by 1% on March 3, as a growing cohort of dollar bears seem to be dominating sentiment and trading. The potential impact of tariffs on growth, historically expensive valuations, and optimism over Europe have led to a sharp decline in net long futures positions for the dollar by speculators (or leveraged non-commercial) traders. Despite this, positioning is still far from the 5-year trough experienced in 2021, and the DXY is still almost 3% above on a 12-month basis.

#### Speculators Cut Long Dollar Bets to Least Since Late October

They now hold some \$15.4 billion in bullish greenback positions

■ Aggregate USD position, non-commercial traders



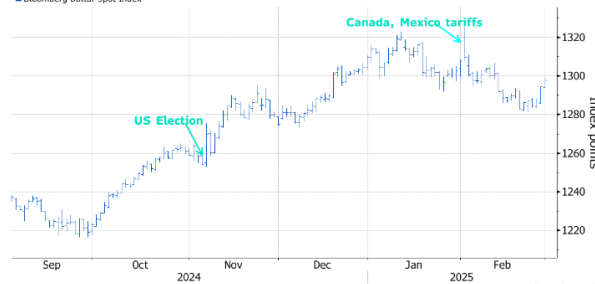
Source: CFTC, Bloomberg

Note: Data includes net futures positions recorded by CFTC through Feb. 25, 2025

Bloomberg

#### Dollar Bears Bet Peak Is Likely In

■ Bloomberg Dollar Spot Index



Source: Bloomberg News

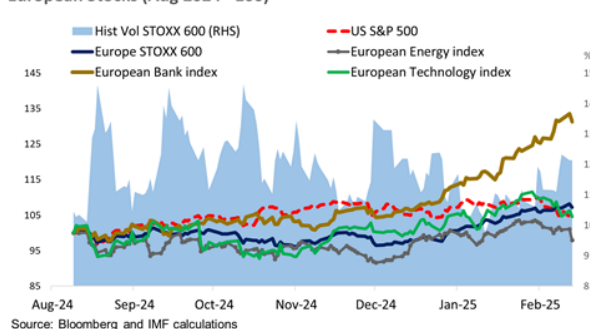
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### Euro area

**Equities dropped this morning from the record high reached yesterday,** with the STOXX 600 index falling by -1.2% on the back of renewed concerns on possible escalation of tariffs and the war in Ukraine after the US administration announced pausing military aid to the country. All European bourses traded in the red this morning, with Germany (DAX -2%). Italy (FTSE MIB -2.1%) and Spain (IBEX 35 -2%) underperforming. Losses were heavier in the information technology (-2%), consumer discretionary goods (-1.8%) and especially in the automobiles (-3.8%) and energy (-3.3%) sectors, with the latter impacted by declining oil prices (Brent down by -1.3%) after the OPEC+ has reportedly announced to hike supply from April in response to pressure from US tariffs. The banking sector also edged lower today (-2.8%) with Claudia Buch, the Chair of ECB's Supervisory Board, warning yesterday that non-performing loans are rising among Eurozone banks, notably in Germany and Austria and to a lesser extent in France, with

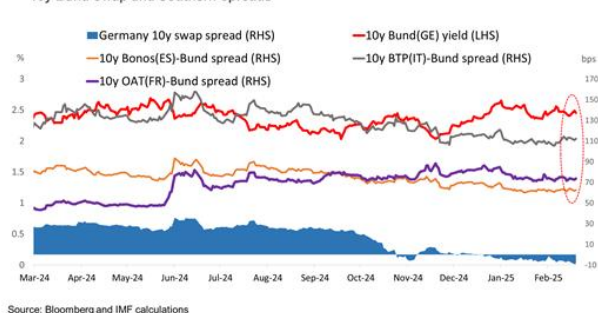
exposures most affected in the CRE and SME sectors. However, **the European defense sector continued to trade in the green this morning (+1.4%)** consolidating yesterday's strong gains (STOXX Aerospace & Defense Index +7.7%), with Germany's Rheinmetall (+3.6%, YtD +92%), Italy's Leonardo (+2%, YtD 75%) and France's Thales (+9%, Ytd 75%) remaining at the forefront of the surge. **The EU proposed extending €150 bn in loans to boost defense spending. The EU also announced plans to activate a mechanism allowing countries to spend an additional €650 bn on defense over 4 years without triggering budgetary penalties.**

European Stocks (Aug 2024= 100)

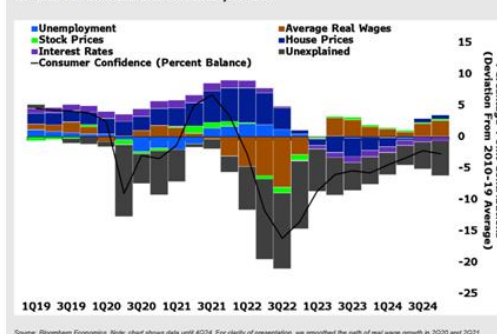
European Defense Stock Valuation Surge  
Sector now trades at 60% premium to the broader market

**The euro continued to appreciate (+0.6%) today**, consolidating yesterday's gains led by the rally in European defense stocks. Analysts at ING see however the recent strengthening of the euro as largely driven by softer of US economic data and the repricing of Fed expectations with the spread between US-EUR 2-year interest rates narrowing to 35 bps. Analysts noted that tariffs are a real threat to the euro and an open economy such as the euro area. **Today's data showed unemployment remains unchanged in January at 6.2% (vs. est. 6.3%) in the euro area**, while analysts at Bloomberg highlighted that increased uncertainty on the back of escalating geopolitical tensions and tariffs threats continue to weigh on consumers' spending in Europe despite increases in real income.

10y Bund-swap and Southern spreads



Consumers Are More Downbeat Than Economy Warrants



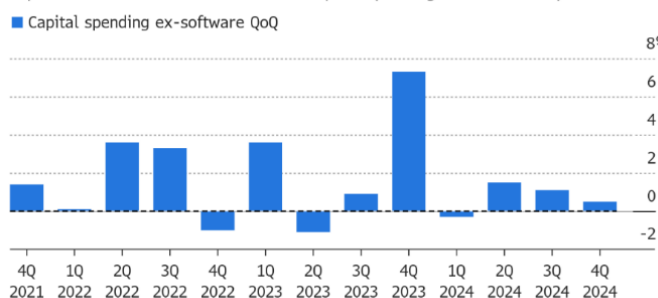
**The bund yield curve bull steepened today**, with 2-year yields lower by around -5 bps mirroring yesterday's movements of 2-year US Treasury yields on the back of investor concerns over trade uncertainty and the **ISM manufacturing index** falling below expectations by -0.6 pts to 50.3pts in February with new orders and employment softening. **Longer term bund yields fell less supported by the perspective of increased defense spending**, with the 10-year yields at 2.47% (-2 bps) and the 30-year Bund yields firm at 2.80%. Analysts at Deutsche Bank highlight the possibility of a "historic fiscal regime shift" as German policymakers (CDU/CSU and SPD) are in talks over two off-budget funds totaling up to €900 bn—€400 bn for defense and as much as €500 bn for infrastructure, equating to 20% of German GDP. If spent over ten years, this is comparable to post-reunification investment in East Germany.

## Japan

**Corporate capital investment in 2024 Q4 marked its first y/y decline (-0.2%) since 2021, well below economists' expectations of +5%,** according to a finance ministry report. Capital investment excluding software grew by 0.5% q/q, down from 1.1% in the previous quarter. Bloomberg attributes the slowdown to firms' caution amid concerns over the incoming US administration's protectionist policies, though it may be a short-term reversal after previous high levels. Meanwhile, companies' profits rose 13.5% y/y, and sales increased by 2.5%, which analysts interpret as companies benefiting from price increases passed onto consumers. Given the tight labor market, these price increases could provide room to raise wages during ongoing wage negotiations. Both business sentiment and price trends will be crucial for the BOJ's upcoming rate hike decision later this month. Today, the yen appreciated (+0.9%) as several top officials, including finance minister Kato, BOJ governor Ueda, and chief cabinet secretary Hayashi, actively denied US accusations of weakening the yen for export advantage. The stock market declined (Nikkei 225: -1.2%) as investors retreated amid tariff concerns.

### Building Caution

Japan's businesses dialed back their capital spending ahead of Trump's return



Source: Ministry of Finance

Bloomberg

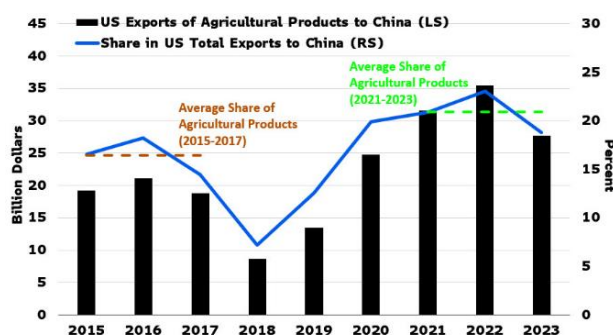
## Emerging Markets

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**In Asia, stocks fell** (EM Asia: -0.5%) as the additional US tariffs on China took effect today, with Indonesia leading the decline (-2.1%) as markets retreated from yesterday's surge. Strategists suggested that the market is in a wait-and-see mode, focusing on China's response and potential actions from the US ahead of April's trade review. EM Asian currencies appreciated modestly, with market contacts highlighting significant risks to the outlook for these currencies if the US adopts a more aggressive tariff policy against Asia. They also noted a shift in asset allocation towards countries with lower correlation with the US, such as Brazil and Sri Lanka. **EMEA equities edged mostly lower this morning amid surging concerns on increased geopolitical tensions.** In CEE, equities dropped by about -2% across the region, while currencies were mixed with the Hungarian forint higher (+0.2%) to the euro while the Czech koruna lost some ground (-0.2%) to the euro. The stock market was flat in Türkiye while the lira was little changed to the dollar. In South Africa equities erased yesterday's gains falling by -1% this morning, while the rand strengthened (+0.5%). On the data front, Hungary's final Q4 GDP came in line with flash estimates at 0.5% q/q (0.4% y/y). **LATAM markets had a mixed day yesterday.** Regional currencies mostly appreciated on the broader dollar weakness. However, the Mexican peso (-0.7%) had a jittery session following the news about immediate imposition of a 25% US import tariff. In a related move seen as a reconciliatory measure, Mexico announced yesterday that it will begin anti-dumping investigations against certain steel exporters from China and Vietnam, according to media reports. Mexican equities also traded lower, down 0.5%. Other major equity markets were also down, with Colombian equities declining 2% on the day.

## China

The stock market pared early declines of up to -0.9% and closed nearly flat (CSI300: -0.1%) amid news that China announced retaliatory measures in response to higher US tariffs. The finance ministry imposed a 10–15% levy on various US farm products, and the commerce ministry added 10 US companies to its “unreliable entity” list and 15 to export control lists. **Strategists view these measures as modest, suggesting room for negotiation and hopes for pro-growth policies at the upcoming legislative meeting, preventing a hard sell-off of Chinese stocks.** Analysts believe China aims to avoid a full-blown trade war through diplomatic channels, despite no formal talks being scheduled yet. Market contacts suggested that China’s retaliation demonstrates patience and restraint, designed to send a stern message while avoiding escalation. They also noted that this indicates a continued attempt to bring the US to the negotiating table, particularly by targeting tariffs on US farmers to sway US public opinion against the trade war. Bloomberg estimated that US agricultural exports to China, which account for almost 20% of total US exports of agricultural products, make the sector a strategic vulnerability in trade disputes. Today, the RMB appreciated (+0.2%), with a strong fixing at 7.1739, 6 pips stronger than the previous session, and 1043 pips stronger than the market survey.



Source: Bloomberg

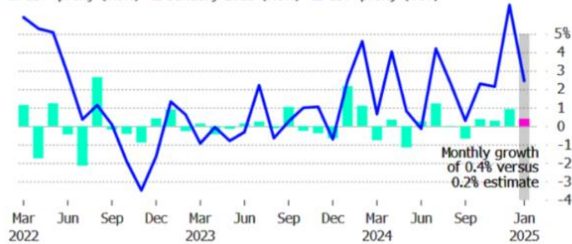
## Chile

**Expectations of a pause on monetary policy easing solidifies as Chile’s economic activity data accelerates for the fourth consecutive month.** The economic activity index rose by 0.4% m/m in January against market expectations of 0.2% m/m. This has lent credence to the stance of the country’s central bank, which had paused the easing cycle by keeping the policy rate unchanged in January while raising concerns over higher inflationary pressures amid steady improvement in economic activity. Markets largely expect the central bank to keep the policy rate unchanged at 5% in the upcoming meeting as a result. On the day, while the market implied policy rates were only marginally higher, the currency strengthened by 1.3% and was amongst the best-performing EM currencies yesterday.

### Chile Economic Activity Rises More Than Expected on Month

Activity gains for fourth straight month

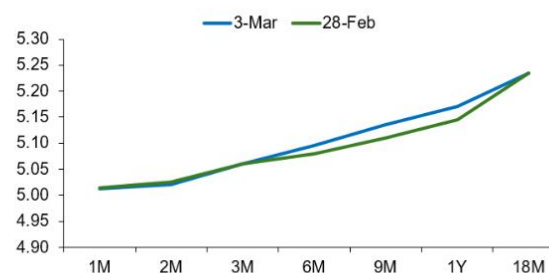
■ GDP-proxy (MoM) ■ January 2025 (MoM) ■ GDP-proxy (YoY)



Source: Chile’s central bank, Bloomberg

### Interest Rate Swap Curve

(Percent)

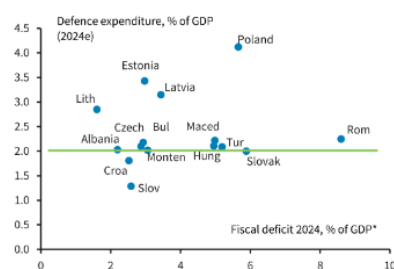


## Central and Eastern Europe

### Additional defense spending in Europe could weigh on fiscal positions of some CEE sovereigns.

Analysts at Barclays consider geopolitical developments over the weekend are “not a credit-positive” for Central and Eastern European (CEE) sovereign credit, with discussions of increased defense spending in Europe expected to pressure the fiscal positions of CEE sovereigns. The analysts noted that fiscal space for additional defense spending is limited in a number of CEE NATO countries with Romania and Hungary just above the 2% of GDP minimum NATO target. The analysts added that risks of fiscal slippage could reignite rating concerns for Romania, particularly given domestic political developments ahead of rescheduled presidential elections in May, but also for Hungary ahead of elections next year. That said, the analysts noted that despite the geographical proximity to Ukraine, the correlation between Ukraine and CEE sovereign bond spreads has been muted recently with little spill over to CEE spreads from the recent optimism of a deal not impacting CEE spreads either.

Figure 5. Eastern European NATO members: fiscal space to increase defence spending slim for some



\*IMF WEO 2022 fiscal deficits shown, except for Romania

Source: NATO, IMF, Barclays Research

Figure 6. CEE spread correlation with Ukraine has been relatively limited








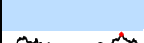





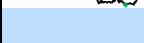



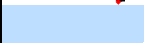





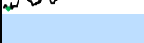


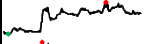
CEE average includes Romania, Hungary, Poland and Bulgaria. Based on the Bloomberg EM USD sov. index

Source: Bloomberg, Barclays Research

*This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (Senior Financial Sector Expert), Benjamin Mosk (Senior Financial Sector Expert), Sonal Patel (Senior Financial Sector Expert-London Representative), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are John Caparusso (Senior Financial Sector Expert), Mustafa Oguz Caylan (Research Officer), Sally Chen (IMF Resident Representative in Hong Kong), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Senior Research Officer), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Silvia Ramirez (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), Hong Xiao (Economist), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Jing Zhao (Economic Analyst). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Tyler (Administrative Coordinator) are responsible for the word processing and production of this monitor.*

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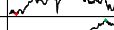
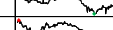


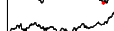


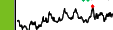



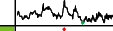









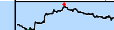

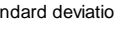


## Global Financial Indicators

3/4/25 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		5,850	-1.8	-2.2	-3.1	14.0	-1
Europe		5,415	-2.3	-0.6	2.9	10.2	11
Japan		37,331	-1.2	-2.4	-3.9	-6.9	-6
China		3,885	-0.1	-1.0	2.4	9.0	-1
Asia Ex Japan		73	-1.1	-3.2	-0.7	9.3	1
Emerging Markets		43	-0.9	-3.1	-0.8	6.0	2
<b>Interest Rates</b>			basis points				
US 10y Yield		4.1	-1	-15	-37	-7	-43
Germany 10y Yield		2.5	-2	1	7	8	10
Japan 10y Yield		1.4	1	5	15	71	32
UK 10y Yield		4.5	-5	0	-2	39	-6
<b>Credit Spreads</b>			basis points				
US Investment Grade		123	1	9	6	-6	3
US High Yield		341	8	19	38	-27	12
<b>Exchange Rates</b>			%				
USD/Majors		105.9	-0.7	-0.3	-1.9	2.0	-2
EUR/USD		1.05	0.6	0.3	1.6	-2.8	2
USD/JPY		148.2	-0.9	-0.5	-4.0	-1.5	-6
EM/USD		44.2	0.4	-0.6	1.3	-5.3	3
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		70.3	-1.8	-3.0	-7.0	-8.0	-5
Industrials Metals (index)		146.4	-0.3	0.7	1.7	5.9	4
Agriculture (index)		56.9	-1.0	-5.5	-6.6	-2.4	0
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		24.1	1.4	4.7	6.9	10.6	6.8
Global FX Volatility		8.3	0.0	0.1	-0.1	1.8	-0.9
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		82	0	0	-4	-24	-3
Italy		112	1	-1	2	-29	-3
France		73	0	-1	1	26	-10
Spain		62	1	0	0	-25	-7

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

## Emerging Market Financial Indicators

Last updated: 3/4/2025 8:16 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		7.26	0.4	-0.1	-0.2	-0.8	0.6		1.8	-3	-5	11	-63	8
Indonesia		16445	0.2	-0.5	-0.6	-4.3	-1.9		6.8	-6	9	-19	19	-19
India		87	0.1	-0.1	-0.2	-5.0	-1.9		6.9	-6	-14	-20	-29	-44
Philippines		58	0.2	0.3	1.0	-3.1	0.3		5.1	0	0	5	-31	26
Thailand		34	0.8	0.2	-0.2	6.0	1.9		2.3	2	-5	-12	-33	-5
Malaysia		4.47	0.0	-0.9	-0.5	5.8	0.1		3.8	-1	-1	-4	-7	-4
Argentina		1064	-0.2	-0.5	-1.2	-20.8	-3.1		29.0	0	142	278	-4087	-15
Brazil		5.88	-0.9	-2.6	-0.7	-15.5	4.9		15.3	0	58	43	501	-61
Chile		947	0.3	-0.6	2.7	2.9	5.2		5.8	0	-6	-7	26	8
Colombia		4115	-0.2	0.3	1.1	-4.2	7.1		11.4	3	-7	-8	162	-37
Mexico		20.80	-0.5	-1.6	-1.4	-18.5	0.2		9.5	0	-21	-53	23	-81
Peru		3.7	0.0	-0.2	0.4	2.2	1.8		6.4	1	5	-23	-43	-19
Uruguay		42	0.0	0.6	2.2	-8.2	2.8		9.7	0	-1	2	69	4
Hungary		378	0.8	0.9	3.7	-3.6	5.1		6.5	7	3	5	42	6
Poland		3.94	0.6	-0.1	2.9	1.0	4.7		5.5	6	-5	-4	42	-5
Romania		4.7	0.6	0.4	1.7	-2.9	1.9		7.2	4	-10	-26	91	-3
Russia		89.3	0.5	-3.3	12.6	2.5	27.2							
South Africa		18.5	0.4	-0.6	0.8	2.7	1.7		10.7	-3	2	2	-90	17
Türkiye		36.45	0.0	0.0	-1.4	-13.4	-3.0		28.1	-19	-36	-1	-129	-163
US (DXY; 5y UST)		106	-0.8	-0.4	-1.9	2.0	-2.4		3.94	-2	-19	-38	-27	-44

	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	7 Days	30 Days	12 M		
								basis points						
China		3,885	-0.1	-1.0	2.4	9.0	-1.3		99	4	3	-48	3	
Indonesia		6,380	-2.1	-3.1	-9.2	-12.0	-9.9		110	13	14	1	19	
India		72,990	-0.1	-2.0	-6.7	-0.9	-6.6		102	9	12	5	16	
Philippines		6,064	0.4	0.0	-3.5	-12.2	-7.1		100	11	9	9	21	
Thailand		1,178	-0.9	-2.4	-8.5	-13.4	-15.9							
Malaysia		1,556	-1.0	-0.8	-1.2	1.2	-5.3		81	5	9	2	11	
Argentina		2,205,801	0.6	-6.7	-11.0	122.2	-12.9		749	16	111	-882	112	
Brazil		122,799	-1.6	-3.4	-2.2	-4.1	2.1		243	17	20	31	-4	
Chile		7,345	0.2	0.4	1.0	15.8	9.5		131	6	9	-2	18	
Colombia		1,576	-2.0	-4.4	3.4	22.3	14.2		336	11	13	35	10	
Mexico		52,082	-0.5	-3.0	0.4	-6.1	5.2		318	8	8	-6	6	
Peru		28,925	1.3	0.8	-0.6	1.0	-0.1		151	5	5	7	10	
Hungary		87,074	-2.1	0.9	2.5	31.3	9.8		160	9	11	-2	5	
Poland		90,281	-2.4	-1.6	4.0	11.1	13.5		123	9	13	24	11	
Romania		17,424	-0.3	-0.9	2.7	8.0	4.2		259	9	12	58	24	
South Africa		87,068	-0.6	-0.8	0.7	19.9	3.5		317	9	17	-36	24	
Türkiye		9,932	0.2	5.1	1.3	11.5	1.0		286	17	26	-39	27	
EM total		43	-0.5	-3.1	-0.8	6.0	2.4		377	6	21	58	13	

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

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