



- **US Equities seen vulnerable to rising yields amid stretched valuations** ([link](#))
- **Treasury coupon auction sizes expected steady for now** ([link](#))
- **BOJ's statistical data indicates that authorities likely intervened on Monday** ([link](#))
- **Interest rate differentials between EM Asia and US narrowed in Q1** ([link](#))
- **Recent rise in Brazil yields likely driven by a pass-through from Treasuries** ([link](#))
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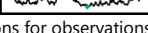
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De-Risking into Fed May Day

Treasury's quarterly refunding announcement brought little surprise ahead of the Fed meeting. This morning, as widely expected Treasury announced no change in coupon auction sizes from May to July as the refunding needs will be raised through bill issuance. Further, it guided for an eventual increase in coupon auction sizes. Treasury's buyback program will start on May 29 with weekly operations with a volume of up \$2.5bn for nominal coupon securities and TIPS. US labor market continues to accelerate as seen in an upbeat print of April ADP employment data this morning. The market reaction remained subdued as market participants have been bracing for a more hawkish Fed today for the last couple of days. Abroad, yesterday's statistical data release from the Bank of Japan indicates that authorities likely conducted an intervention that reflects about 3% of the average daily yen trading volume. Latest aggregate euro area data shows that the region exited from a recession in the first quarter while aggregate core inflation remains more sticky which prompted market pricing to reduce the odds of a third ECB rate cut in 2024. Among emerging markets, the Colombian central bank continued its cutting cycle yesterday while today, many regional markets are closed in observation of Labor Day.

Key Global Financial Indicators

Last updated: 5/1/24 8:50 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5036	-1.6	-1	-4	21	6
Eurostoxx 50		4921	-1.2	-1	-3	13	9
Nikkei 225		38274	-0.3	2	-4	31	14
MSCI EM		41	-1.4	1	0	5	2
Yields and Spreads			bps				
US 10y Yield		4.66	1.1	2	35	110	78
Germany 10y Yield		2.58	5.2	8	29	27	56
EMBIG Sovereign Spread		373	33	34	32	-110	-11
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.2	0.0	0	0	-9	-4
Dollar index, (+) = \$ appreciation		106.2	0.0	0	1	4	5
Brent Crude Oil (\$/barrel)		85.3	-1.3	-3	-2	8	11
VIX Index (% change in pp)		16.1	0.4	0	2	0	4

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

Mature Markets

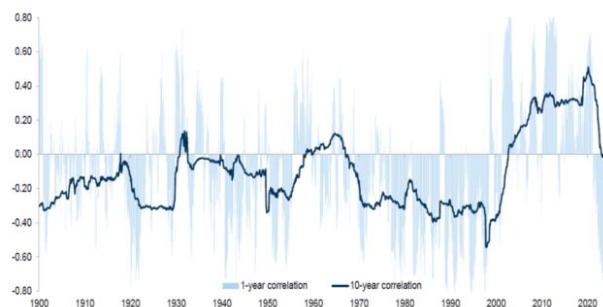
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United States

Yesterday, the unexpected increase in the 1Q24 Employment Cost Index, released before trading started, immediately influenced market direction toward the negative. As confidence in the resilience of the US labor market grew throughout the day, expectations for rate cuts for the year went down. Now, markets expect fewer than one rate cut by the November Fed meeting. Additionally, news that April consumer sentiment hit its lowest level since 2022 contributed to a risk-off sentiment. This prompted a broad-based correction in US markets. Equities ended the day down (-1.6%), to deepen their decline in April (-4.6%), marking thus far the worst monthly performance in 2024. The yield curve shifted up, and 2y Treasury yields climbed (+6bps) reaching 5.035%, their highest level since Nov. 2023. US dollar also strengthened (+0.7%), while VIX rose (+1pp.) to 15.7%.

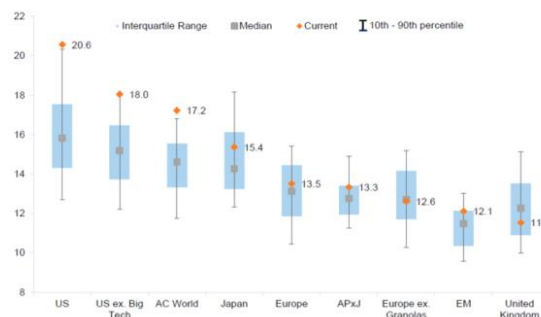
Rising bond yields, along with high valuation multiples, pose challenges for US equities. Historically, falling bond yields have supported stocks by increasing their net present value through lower discount rates for future dividend payments, so that the bond yield-equity correlation has been typically negative. However, since the 2000s, this relationship shifted due to economic shocks like the dot-com bubble and the Global Financial Crisis, prompting the bond yield-equity correlation to turn positive in the last two decades. Weak growth, potential recession, and deflation became main risks for equity investors, while bond investors benefited from quantitative easing (left chart). Presently, Goldman Sachs analysts view the rise in Treasury yields as a headwind for US equities due to high valuations, particularly in tech while noting that the bond yield-equity correlation has been retracing into negative territory. Despite some exuberance attributed to large-tech companies, US equities excluding tech also exceed their 20-year peaks (right chart).

Exhibit 2: Positive equity/bond yield correlations have been prevalent only since the late 1990s
S&P 500 vs. US 10y Bond Yield Correlation. 1y and 10y Rolling Correlation (monthly changes, daily where available).



Source: Datastream, Haver Analytics, Goldman Sachs Global Investment Research

Exhibit 7: The current environment suggests there is more risk for equity investors, particularly in the US
12m fwd P/E multiple. MSCI Regions. Data for the last 20 years.



Source: FactSet, Goldman Sachs Global Investment Research

Market contacts anticipate no change in Treasury auction sizes for coupon securities today.

Barclays analysts project that today's quarterly refunding announcement (QRA) will maintain current auction sizes, with about \$1.68tn financed by notes/bonds and a \$500 bn gap to be raised through bill issuance, totaling \$2.18tn in net marketable borrowing needs. This would also be consistent with Treasury's communication from the last QRA, where it noted that "*Based on current projected borrowing needs, Treasury does not anticipate needing to make any further increases in nominal coupon (...) auction sizes (...) for at least the next several quarters*". Nevertheless, the question remains how long Treasury can avoid raising coupon auction sizes, as solely relying on bill issuance to raise the projected borrowing needs could result in a bill issuance share of over 22%, which could be at odds with the recommendation of the Treasury Borrowing Advisory Committee's guidance to aim for such share to remain in a range of 15–20% to prevent overly concentrated short end issuance. To remain within this range, Barclays analysts anticipate that Treasury will announce an increase in coupon auction sizes as early as 2025.

FIGURE 1. We expect auction sizes of notes/bonds to be unchanged at this meeting

\$bn	2yr	3yr	5yr	7yr	10yr	20y	30y	2y FRN
Feb-24	63	54	64	42	42	16	25	28
Mar-24	66	56	67	43	39	13	22	28
Apr-24	69	58	70	44	39	13	22	30
May-24	69	58	70	44	42	16	25	28
Jun-24	69	58	70	44	39	13	22	28
Jul-24	69	58	70	44	39	13	22	30

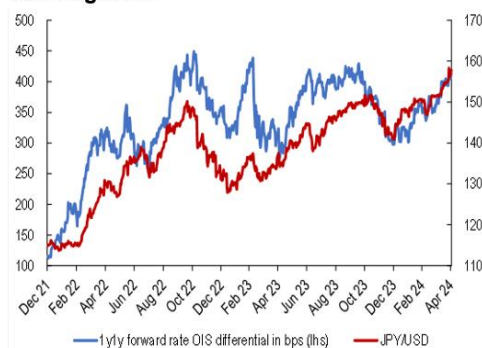
Shaded = Barclays estimates.

Source: US Treasury, Barclays Research

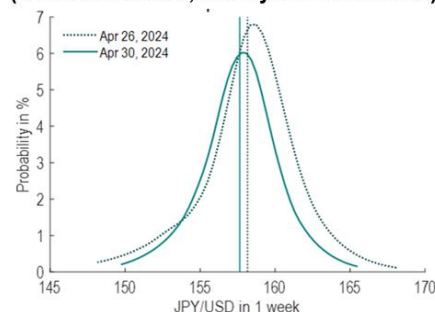
Japan

Yesterday, the release of BOJ central bank accounts suggests that the authorities likely intervened in the currency market on Monday. The BOJ reported a larger-than-expected decline of 7.6tn yen in its current account, attributing it to fiscal factors such as government bond issuance and tax payments on Wednesday. This discrepancy, compared to the 2.1tn yen estimated by private money brokers, indicates a potential intervention of around 5.5tn yen, which corresponds to about 3% of the average daily yen trading volume. The yen depreciated earlier this week, breaching 160 yen per dollar, influenced by continued higher-for-longer sentiment in the US and cautious messaging from the BOJ regarding the pace of monetary policy normalization. This widened interest rate differentials, as evidenced by the divergence in market pricing of relative monetary policy stances which the yen-dollar currency pair has been closely mirroring since December last year. Following the BOJ's alleged intervention, the one week ahead yen-dollar state price density that is priced currency options shifted downwards, with a slightly higher probability of yen appreciation (right chart). However, past interventions in 2022 only provided temporary relief to yen weakness and did not lead to a sustained decoupling from interest rate differentials, which remained the main gravity force for the yen-dollar currency pair.

US-Japan rate differentials (1y1y) and the JPY exchange rate



Yen-dollar density (one week-ahead; 5.5tn yen intervention)

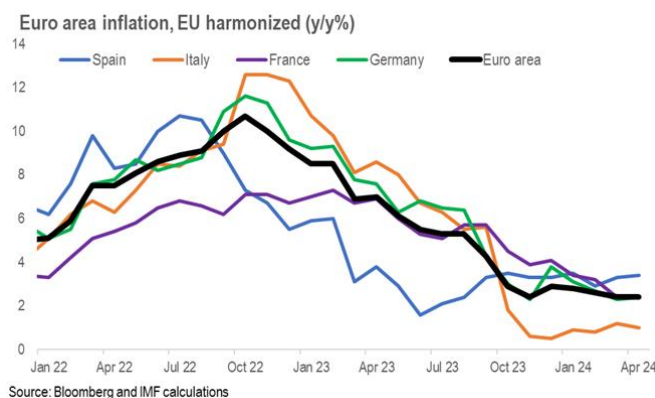


Note: Vertical lines reflect one week ahead forward prices.

Euro Area

In thin trading European markets remain flat. This morning, most of European markets are closed given the Labor Day holiday with the Stoxx 600 remaining essentially flat (-0.1%) the euro remaining stable at 1.06 versus the dollar. From a monthly perspective the Stoxx 600 corrected (-1.0%), so that European equities record their first month of losses since November 2023. Bank of America market contacts note that a rotation into UK stocks could be one driver of the adjustment.

The Euro Area exited the recession while aggregate core inflation proves stickier. In the first quarter of this year, GDP grew by +0.4%/y/y (exp. +0.2% from +0.1%) driven by resilient growth in its largest member states. While headline inflation printed stable in April at +2.4% (exp. +2.4% from +2.4%), core inflation remained stickier than expected at +2.7% in April (exp. 2.6% from 2.9%).



Since the start of the year, Goldman Sachs analysts see little progress in services disinflation. They expect core inflation to remain at +2.4%/y/y at the end of 2024, although maintaining a view that the core inflation could eventually approach 2% in 2025 driven by a pass-through of energy related effects. They expect that stronger growth and inflation data undermine the case of a subsequent rate cut in July after the initial one in June, predicting a total of three rate cuts in 2024 (June, September, and December). By comparison, market pricing is for two -25 bps rate cuts in 2024 with 63% odds of a third one by the end of the year, which notably declined from 94% last week on the back of the stronger data releases.

United Kingdom

UK markets remained flat with small gains in equity markets. This morning, the FTSE 100 fractionally appreciated (+0.1%) with a solid monthly gain for the month of April (+2.75%) driven by cyclical sectors such as energy and mining, as well as banks. Pound sterling remained stable, trading at 1.24 dollars, and gilt yields remained unchanged while today's data showed a decline of the manufacturing PMI to 49.1 in April (exp. 48.7 from revised 48.7). Today's data also shows that while the UK

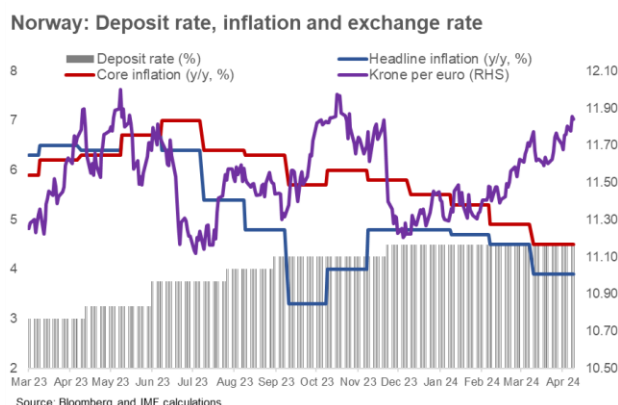
UK Interest rate Swap Rates and Index of house prices



housing market dodged expectations of a sharp downturn last year, it's recovery over the last months remains feeble. Indeed, April house prices indicate slowing growth at +0.6% y/y (exp. +1.2% from +1.6%). Analysts at Nationwide perceive that the slowdown reflects ongoing affordability pressures as longer term interest rates have been rising again in recent months. Two and five-year swap rates, used to set mortgages, have been increasing meanwhile Bank of England officials remain apprehensive of inflationary risks.

Norway

Before the Norges Bank meeting, the krone slightly strengthened, while foreign currency purchases are rising this month. This morning, the currency appreciated (+0.1%) towards 11.84/€ as consensus expects Norges Bank to maintain the policy rate at 4.5%. Yesterday's data showed that Norway's credit indicator rose by +3.5% y/y in March (from 3.5%). The central bank announced on April 30 that it will increase its purchases of foreign currency on behalf of the government to an equivalent of 550mn krone (\$50mn) per day in May from 350mn krone in April. As reported by Bloomberg, the central bank indicated that the transactions are not part of its monetary policy toolkit and that it does not have an exchange rate target. Since the beginning of the year, the Norwegian krone has depreciated (-5.2%) against the euro.



Emerging Markets

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EMEA equities and currencies were trading mixed this morning in holiday-thinned trading. Several equity markets were closed for a public holiday, while equities in Egypt (+1.9%) outperformed and those in the UAE fell (-0.5%). Currencies were mostly trading in a tight range. The Czech koruna remained flat against the euro this morning (trading at around 25.15/€) ahead of the Czech national bank's policy decision tomorrow, where consensus expect the central bank to cut the repurchase rate by 50bps to 5.25%.

In Asia, most markets are closed today for a public holiday.

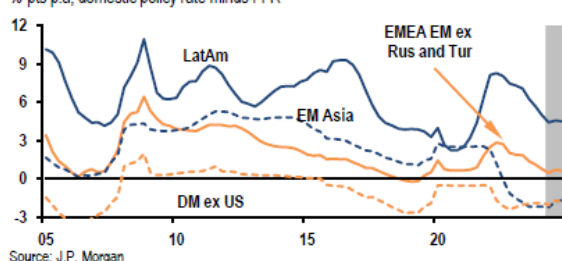
Yesterday, Latin American currencies and stock markets retreated. Within currencies, the underperformer on the day was the Chilean peso (-2%), even though it remained the best performing currencies across major EMs in April. The Brazilian real and the Colombian peso also weakened by a notable magnitude (-1.4%). As expected, but in not unanimous decision, the Colombian central bank continued its cutting cycle (-50bps), with two dissenting voters that were in favor of a more aggressive pace of easing (one vote for -75bps another for -100bps). Mexico's preliminary GDP print for Q1 printed above expectations at +0.2% q/q (exp. +0.1% from +0.1%). Equity markets broadly declined, most notably in Mexico (-1.9%) and Colombia (-1.7%).

EM Asia

Interest rate differentials between EM Asia and US narrowed further in the first quarter. JP Morgan analysts see this as a harbinger for heightened risk of foreign currency and balance of payment pressures. The recent rise in the US yields has aggravated Asia's already narrow rate buffers, which are significantly lower than for other EM countries. Recent policy actions in the region have indicated discomfort with currency volatility and capital outflow pressures, as Indonesia and Taiwan unexpectedly hiked policy rates, while others have mitigated FX pressures through administrative tightening and foreign currency intervention.

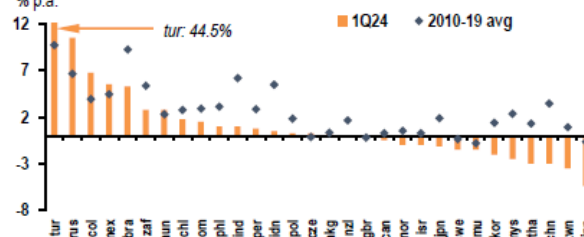
Interest rate differential versus US by region

%-pts p.a.; domestic policy rate minus FFR



Policy rate differential vs US

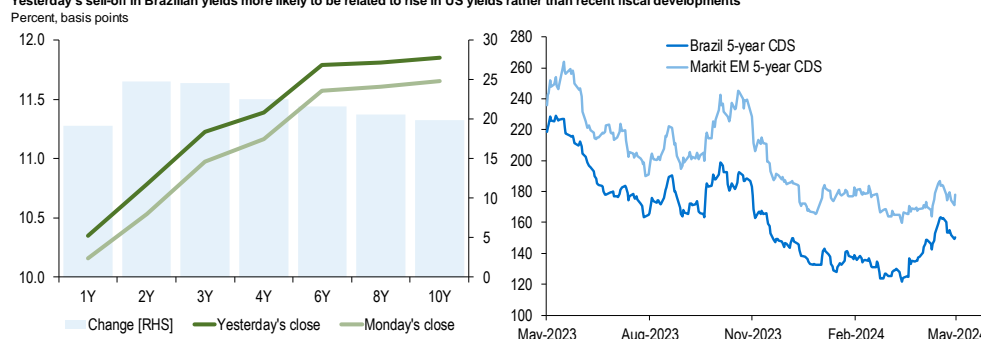
% p.a.



Brazil

Yesterday's rise in domestic yields appears driven by a pass-through from Treasuries. Brazilian yields have notably risen since the start of the year (+80 bps) with yesterday's increase accounting for a quarter of the

Yesterday's sell-off in Brazilian yields more likely to be related to rise in US yields rather than recent fiscal developments



Source: Bloomberg, IMF Staff Analysis, Markit

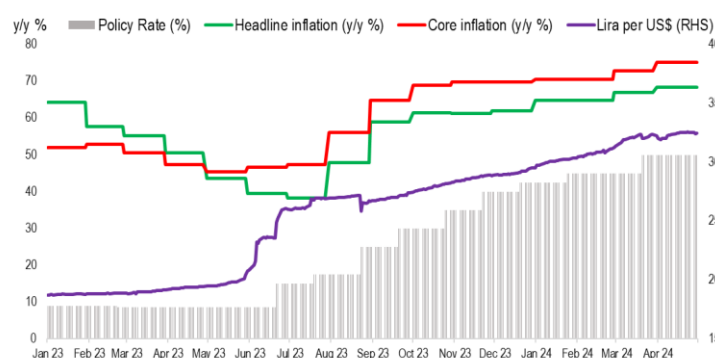
change (+20bps) as yields have risen across all maturity points (left chart). Increasing yields have gone hand in hand with headlines on the country's fiscal policy, a year after country introduced its new fiscal rule. While the government continues to aim for a balanced budget for this year, it has pushed out its target of a first budget surplus to 2026 from 2025. Since mid-March, spreads on a 5y credit default swap (CDS) contract have notably risen (+40bps) to 151bps, indicating a rising degree of sovereign risk. However, yesterday's lack of movement in Brazil's CDS market suggests that the sharp rise in Brazilian yields is more likely to be related to developments in the US Treasury market (right chart).

Türkiye

Following news articles, some lira deposits and bond gains could be subject to a withholding tax, with tax rates valid from May 1 to July 31.

According to a Bloomberg report, citing a presidential decree in the official gazette, a withholding tax of 7.5% could be imposed on lira deposits up to six months, while for deposits up to 1 year and deposits over 1 year the withholding tax could be 5% and 2.5% respectively. Deposits converted from the FX-protected savings tool, KKM, to lira

Türkiye: Inflation, Policy Rate and FX



Source: Bloomberg and IMF calculations

could be exempted from the withholding tax. Bond proceeds, depending on how long bonds have been held, could be taxed between 2.5%-7.5%. The Turkish lira traded fractionally weaker this morning (-0.1%) at around 32.45/\$. Year-to-date, the lira depreciated -9% driven by currency weakness earlier in the year. Bloomberg reports that the lira outperformed most peers in April—as one of the few currencies that avoided a significant depreciation (-0.5%) against the dollar during the month. Tighter monetary conditions following a 500bps policy rate hike in March, together with an improvement in Türkiye's external position in Q1 likely proved supportive of the currency as of recent.

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Global Financial Indicators

5/1/24 8:50 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5034	-1.6	-1	-4	21	6
Europe		4921	-1.2	-1	-3	13	9
Japan		38274	-0.3	2	-4	31	14
China		3604	-0.5	3	0	-11	5
Asia Ex Japan		68	-1.2	2	0	3	2
Emerging Markets		41	-1.4	1	0	5	2
Interest Rates			basis points				
US 10y Yield		4.66	1.1	2	35	110	78
Germany 10y Yield		2.58	5.2	8	29	27	56
Japan 10y Yield		0.89	1.2	-1	15	48	28
UK 10y Yield		4.36	3.9	2	42	64	82
Credit Spreads			basis points				
US Investment Grade		119	-0.6	-3	-1	-41	-15
US High Yield		350	0.7	-4	4	-122	-35
Exchange Rates			%				
USD/Majors		106.21	0.0	0	1	4	5
EUR/USD		1.07	0.2	0	-1	-3	-3
USD/JPY		157.8	0.0	2	4	15	12
EM/USD		46.2	0.0	0	0	-9	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		85.3	-1.3	-2	-1	14	12
Industrials Metals (index)		156	-1.6	0	11	1	9
Agriculture (index)		59	-0.4	-2	-2	-11	-6
Implied Volatility			%				
VIX Index (% change in pp)		16.1	0.4	0.2	2.5	0.1	3.7
Global FX Volatility		7.5	0.0	0.3	0.8	-1.5	-0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		100	0.0	-8	-9	-88	-4
Italy		133	0.0	-7	-5	-53	-34
Portugal		62	0.0	-3	-9	-20	-1
Spain		77	0.0	-3	-9	-28	-20

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

Emerging Market Financial Indicators

Last updated: 5/1/2024 8:49 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		7.24	-0.2	0.1	0	-5	-2		2.4	0.0	6	0	-70	-16
Indonesia		16260	0.0	-0.2	-2	-10	-5		7.2	2.3	19	55	72	77
India		83	0.0	-0.1	0	-2	0		7.6	0.1	0	39	27.2	34
Philippines		58	-0.2	-0.5	-3	-4	-4		5.8	2.5	8	33	-22	13
Thailand		37	-0.1	0.0	-2	-8	-8		2.9	2.5	6	41	29	22
Malaysia		4.77	-0.1	0.2	-1	-7	-4		4.0	-1.5	0	12	26	24
Argentina		877	0.0	-0.5	-2	-75	-8		40.3	-40.5	-310	-1244	-5406	-4612
Brazil		5.19	-1.4	-1.3	-3	-4	-6		11.9	18.4	31	69	-60	148
Chile		960	-2.0	-0.6	3	-16	-8		5.4	0.0	-5	13	17	45
Colombia		3920	-1.4	-0.3	-1	20	-2		8.5	0.0	-2	49	-61	83
Mexico		17.12	0.1	-0.3	-3	5	-1		9.6	-1.5	9	70	120	110
Peru		3.8	-0.9	-1.6	-1	-2	-2		7.3	-4.9	0	-26	-19	61
Uruguay		38	0.0	0.2	-1	1	2		9.1	2.8	10	12	-88	-41
Hungary		366	0.2	0.6	0	-7	-5		7.0	0.0	9	46	-81	125
Poland		4.07	-0.2	-0.4	-2	3	-3		5.4	0.3	1	40	-3	90
Romania		4.7	0.1	-0.2	-1	-4	-3		6.7	4.7	13	31	-46	46
Russia		94.0	-0.6	-1.8	-2	-15	-5							
South Africa		18.7	0.5	2.9	1	-2	-2		10.1	1.0	-10	29	73	96
Türkiye		32.46	-0.1	0.3	-1	-40	-9		28.3	30.0	-57	144	1537	151
US (DXY; 5y UST)		106	0.1	0.4	1	4	5		4.72	0.4	6	40	108	87

	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		3604	0.0	3	0	-11	5		136	-9	-13	-58	-22	
Indonesia		7234	0.0	2	0	5	-1		97	-3	-3	-56	1	
India		74483	0.0	1	1	22	3		100	-3	-7	-59	-16	
Philippines		6700	0.0	3	-4	1	4		84	-2	-3	-40	4	
Thailand		1368	0.0	1	-1	-11	-3		0	0	0	0	0	
Malaysia		1576	0.0	1	2	11	8		81	-2	-2	-20	-4	
Argentina		1323586	1.2	6	9	344	42		1220	41	-239	-1477	-693	
Brazil		125924	-1.1	1	-1	21	-6		212	-2	-1	-65	-3	
Chile		6512	-0.6	1	-2	20	5		119	3	-5	-19	-6	
Colombia		1357	-1.7	1	0	13	14		304	8	11	-121	33	
Mexico		56728	-1.9	0	-2	3	-1		307	1	-4	-84	-27	
Peru		29184	-0.1	5	3	34	12		150	6	9	-29	6	
Hungary		68142	0.0	3	4	52	12		150	1	-3	-77	1	
Poland		84570	0.0	0	2	34	8		91	-1	-7	-46	-6	
Romania		17061	0.0	1	0	39	11		182	0	-2	-78	-19	
South Africa		76076	0.0	3	2	-3	-1		335	-8	-24	-84	27	
Türkiye		10046	0.0	4	10	118	34		272	-9	-29	-234	-42	
EM total		41	-0.4	1	0	5	2		329	46	35	-90	-17	

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

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