GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, MAY 1, 2025
LEAD EDITOR: SANJAY HAZARIKA

- **Survey finds investors expect further market volatility as trade war fears persist** (link)
- **US corporate credit spreads remain high** (link)
- **Some think recent market rally could be a sign of investor complacency** (link)
- **UK housing market shows signs of weakness** (link)
- **Colombia surprises with a 25 bps rate cut** (link)
- **Poland expected to begin easing cycle** (link)
- **Special Feature: EM Local Currency Bond Holdings Monitor** (attached)

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US Markets Set to Rally due to Stronger Tech Earnings

Many markets around the world are closed for the May Day holiday. US equity index futures point to a strong rally this morning after American technology companies delivered better than expected earnings reports. If the gains are sustained, they will mark an eighth consecutive positive day for US stocks. Sentiment was also boosted by hopes that the US will dial down the rhetoric on tariffs. The US Treasury announced that it would keep the auction size of nominal coupon bonds and notes unchanged for at least several quarters and would revamp its buyback program. This was reassuring for markets, as some feared a large increase in supply. Treasury yields are down again, with the benchmark 10-year Treasury yield at its lowest level in almost a month. The dollar was stronger against most global currencies.

Key Global Financial Indicators

Last updated: 5/1/25 8:03 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5569	0.1	4	-1	11	-5
Eurostoxx 50		5160	0.0	1	-3	5	5
Nikkei 225		36452	1.1	5	2	-5	-9
MSCI EM		44	0.3	2	0	7	5
Yields and Spreads					bps		
US 10y Yield		4.14	-2.7	-18	-3	-49	-43
Germany 10y Yield		2.44	-5.3	-5	-28	-14	8
EMBIG Sovereign Spread		368	5	14	23	-5	43
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		45.2	0.0	0	1	-2	6
Dollar index, (+) = $ appreciation		99.9	0.4	1	-4	-6	-8
Brent Crude Oil ($/barrel)		59.9	-1.9	-10	-20	-28	-20
VIX Index (%, change in pp)		24.0	-0.8	-3	2	9	7

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

Mature Markets

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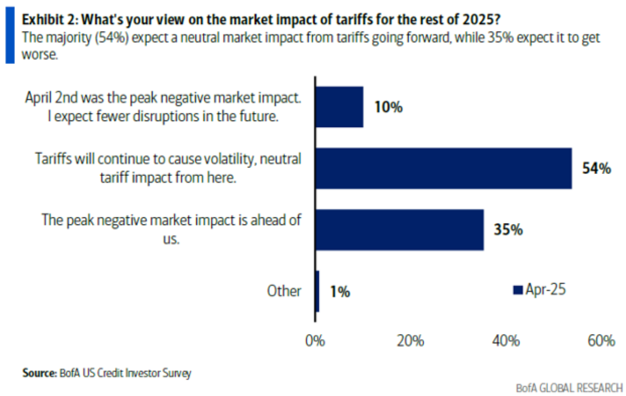
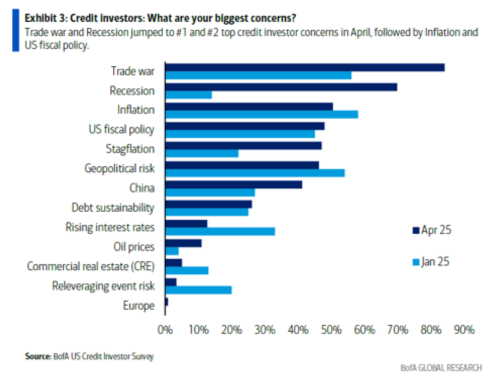
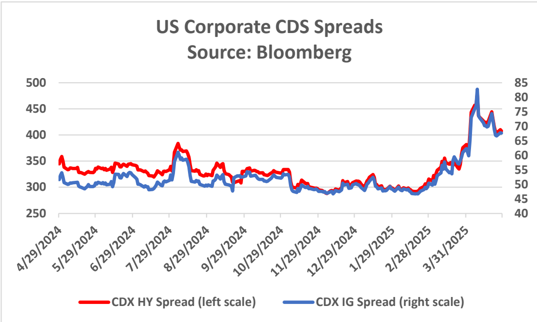
United States

The latest global fund manager survey from Bank of America found that almost 90% of investors expect continued or higher market volatility due to worries about global trade conflicts. They flagged trade war and recession as the biggest risks facing market. A big change from the previous survey was that investors had become more defensive, with a net 32% of investment grade (IG) investors reporting higher than normal cash holdings, compared to just 5% in July 2024. The outlook is bearish, with a net 61% of IG and 38% of high yield (HY) investors expect credit spreads to widen over the next three months. Investors are also moving out of riskier sectors such energy into those perceived as safer, such as telecoms. In addition, weaker credits are expected to underperform stronger credits.





US corporate credit spreads remain high by recent standards, although they have recovered from their worst levels at the height of the recent market selloff. Spreads on the CDX IG and HY credit default swap indexes remain well above average levels. In early to mid-April, when the S&P 500 was down almost 20% from its February 19 record close, companies withdrew new bond issuance deals from the market, fearing the volatile conditions. At the time, the CDX IG index spread rose to 83 bps, while the spread on the HY index crossed 450 bps, before pulling back. Over the past week, issuers have returned to the market and new deals have been absorbed without problems. However, markets remain nervous, and there has been a steady outflow from bonds mutual funds and exchange traded funds. US corporate bonds are less attractive to foreign investors due to the sustained weakness in the dollar and high hedging costs.



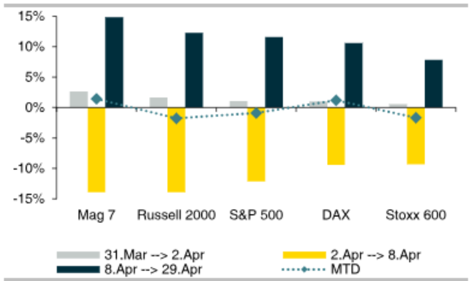
Europe

Most European equity markets and government bond markets are closed for the May Day holiday. In FX markets, the euro was trading weaker against the dollar at 1.1323. Elsewhere, Bloomberg reports that the EU will present new trade proposals to the US next week to kick-start trade negotiations with the US administration.

Some analysts view the retracement in risk assets as a possible sign of complacency. Analysts at Commerzbank note that equity markets are almost back at levels seen before the April 2nd US tariff announcements. At the same time, forward-looking macro sentiment indicators alongside GDP growth forecasts have been pared back, suggesting a growing divergence between market pricing and macro expectations. While the divergence could persist, Commerzbank analysts believe that should supply chain disruptions surface because of tariffs, that might prompt a realignment between risk asset pricing and macro fundamentals. For now, the analysts note that tariffs and the associated uncertainty have dominated Q1 corporate earnings calls rather than logistical disruptions per se. However, they believe this may change in the coming weeks and should market prices adjust, this would confirm whether markets have been complacent or overly concerned about risks from supply chain disruptions.

Equities have recovered most losses

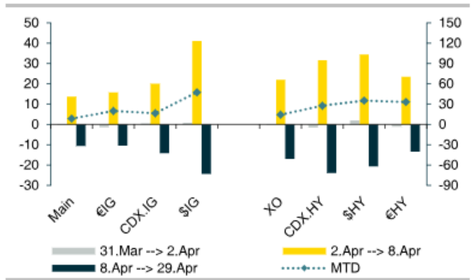
Equity indices, changes in %



Source: Bloomberg, Commerzbank Research

Credit lagging, but not a lot

Spread changes for iBoxx (z-spread), iTraxx and CDX indices, in bp

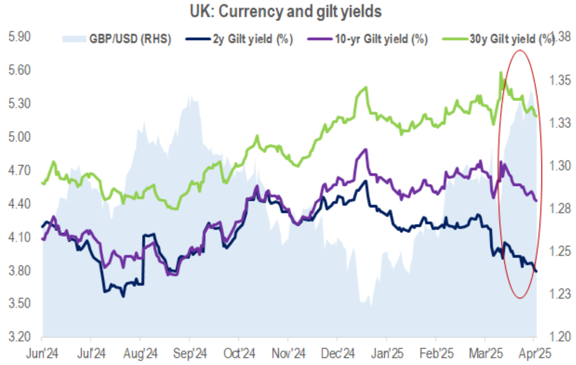


Source: Markit, Commerzbank Research

United Kingdom

UK mortgage approvals declined in March. Data released this morning showed that UK mortgage approvals fell to 64.3K in March, down from 65.1K in February and slightly below estimates. Today's data follows yesterday's house price data release which showed that house prices declined in April, registering their largest monthly decline in almost two years. Bloomberg analysts expect house prices to rise slowly over the remainder of the year, despite the drop in mortgage approvals as a gradual decline in interest rates is expected to support activity. Meanwhile, the Pound sterling was trading broadly unchanged against the dollar this morning, while gilt yields were broadly unchanged with the 10Y gilt yield trading at 4.43%. Separately, the final April manufacturing PMI printed a touch higher at 45.4, versus the preliminary reading of 44, marking a seventh consecutive month of contraction. Money markets continue to expect the BoE to deliver a 25bp rate cut at next week's meeting with a total of around 98bps of easing expected for the remainder of the year, taking Bank Rate to around 3.5% from the current level of 4.5%.

UK: Currency and gilt yields



Source: Bloomberg and IMF calculations

Emerging Markets

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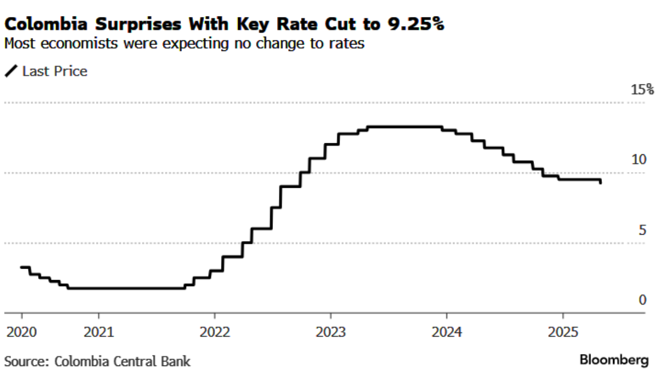
In EMEA, the South African rand continued to weaken against the dollar (-0.4% to 18.67/$), while the Turkish lira was marginally stronger (+0.1% to 38.45/$). Ukraine's Eurobonds gained this morning after a three-day selloff according to Bloomberg, as investors reacted favorably to news of a minerals deal with the US. **Most markets in Europe and Asia are closed for the May Day holiday.** Tensions remain high as market participants await the next developments on tariffs. **Yesterday, Latin American assets were mixed.** Stocks gained in Mexico (+1.2%) and Colombia (+1.0%), while Peru's equity market declined by 0.8%. Currencies depreciated in Brazil (-0.9%), Colombia (-0.9%), and Mexico (-0.3%) against the US dollar.

China

China has reportedly compiled a list of U.S.-made goods exempt from the 125% tariffs. According to Reuters, instead of publicly announcing a "whitelist," the Chinese government has been discreetly encouraging companies to inquire whether the U.S. products they need to import qualify for exemptions. For instance, on Tuesday, tariffs on U.S. ethane imports, a critical input for plastic manufacturing, were quietly lifted, following similar exemptions granted last week for certain U.S. semiconductor and pharmaceutical products. Meanwhile, a social media account affiliated with CCTV, China's official central television station, posted on Wednesday that the U.S. has been "proactively reaching out to China through various channels, seeking to negotiate on tariff issues," without giving any details. Whether true or not, such claims could also provide the government with an opportunity to recalibrate its stance and approach negotiations with the U.S. without appearing to compromise. The reciprocal escalations of tariffs between the two countries have severely impacted their economies, with cargo shipments from China to the U.S. dropping by 60%, according to Bloomberg.

Colombia

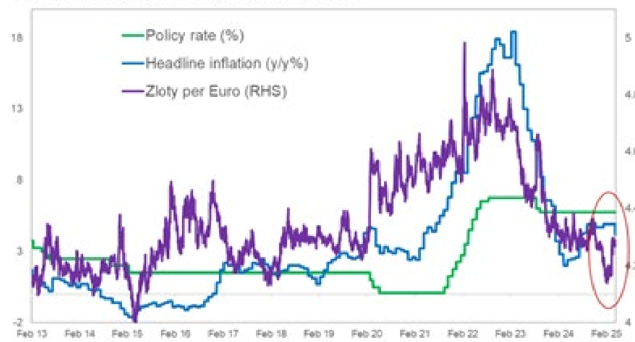
Colombia's central bank cut its interest rate by 25 basis points to 9.25%. This move surprised most analysts. It was a win for President Gustavo Petro, who wanted lower borrowing costs. Inflation slowed to 5.1%, the lowest since October 2021. This helped the central bank decide to cut rates. The decision was unanimous, showing more agreement than in past meetings. The bank said it is still being cautious. Real interest rates are still high. Investors are worried about the country's high fiscal deficit. Colombia had a nearly 7% deficit in 2024. President Petro fired his finance minister in March. He is pushing back against spending cuts. Other countries like Chile and Peru are holding rates steady. Brazil is raising rates due to inflation. The Colombian central bank is now focusing more on economic data and may cut rates more if inflation keeps falling and the government's spending cuts look credible.



Poland

Preliminary inflation data confirms expectations for a larger rate cut in May. Data released yesterday showed preliminary headline inflation easing to 4.2% y/y (versus expected 4.3% from 4.9% prior) in April. Analysts see the data as affirming the outlook for the National Bank of Poland (NBP) to begin loosening policy at the upcoming MPC meeting next week, with focus now on the scale and speed of the easing cycle. At the previous press conference, Governor Glapiński indicated a dovish shift, and was seen to express a preference for isolated adjustments rather than a prolonged series of cuts. JPMorgan analysts' baseline scenario includes two 50 basis point rate reductions—one in May and another in June, but the analysts see a possibility for a larger rate cut in May followed by a pause, or a smaller 25bps reduction in May with additional cuts in June or July. Standard Chartered analysts also now expect a 50bps rate cut in May but note a smaller rate cut is possible given geopolitical and trade uncertainty. Forward-rate agreements pricing indicate that a 50bps rate cut is anticipated next week to take the policy rate to 5.25%.

Poland: Policy rate, Inflation and Currency



Source: Bloomberg and IMF calculations

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Global Financial Indicators

Last updated: 5/1/2025 8:11 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		7.27	0.0	0.2	-0.2	-0.4	0.4		1.7	0	-4	-18	-62	1
Indonesia		16577	0.2	1.8	0.7	-1.9	-2.7		6.8	-3	-10	-17	-34	-23
India		84	0.9	1.1	1.2	-1.3	1.3		6.7	0	3	-17	-86	-65
Philippines		56	0.0	1.3	2.5	3.5	3.8		4.9	-3	-9	-13	-82	7
Thailand		34	-0.3	-0.3	2.0	10.5	2.5		2.0	0	0	-16	-88	-34
Malaysia		4.32	0.3	1.7	2.7	10.6	3.6		3.7	0	-1	-12	-32	-16
Argentina		1171	-0.6	-0.7	-8.4	-25.1	-12.0		32.9	-81	-117	-303	-734	376
Brazil		5.67	-0.9	0.6	0.6	-8.5	8.8		14.1	-13	-29	-107	275	-186
Chile		948	-0.2	-0.4	0.2	1.3	5.1		5.5	1	0	-17	-44	-17
Colombia		4226	-0.9	1.9	-1.0	-7.2	4.3		12.0	2	18	-21	148	23
Mexico		19.64	-0.1	-0.2	3.7	-13.5	6.1		9.4	4	-8	-2	-74	-99
Peru		3.7	0.0	0.8	0.3	2.8	2.5		6.5	-4	-11	-14	-75	-8
Uruguay		42	0.1	-0.4	0.3	-8.9	4.0		9.6	-1	-5	15	50	-3
Hungary		357	0.0	-0.1	4.3	2.0	11.3		6.5	-2	-18	-38	-63	9
Poland		3.78	-0.1	-0.9	2.5	6.7	9.2		4.8	0	-6	-70	-78	-82
Romania		4.4	-0.1	-0.7	4.9	5.6	9.2		7.3	4	2	11	68	7
Russia		82.0	0.0	1.3	3.3	14.4	38.5							
South Africa		18.6	-0.2	0.9	-0.9	-0.3	1.1		10.8	0	-16	-2	-123	33
Türkiye		38.45	0.1	-0.3	-1.3	-15.5	-8.1		35.0	-43	41	69	625	532
US (DXY; 5y UST)		100	0.4	0.5	-4.2	-5.6	-7.9		3.71	-2	-23	-22	-94	-67

	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	7 Days	30 Days	12 M	YTD
								basis points					
China		3,771	0.0	-0.4	-2.4	3.1	-4.2		126	8	18	-10	30
Indonesia		6,767	0.0	2.0	3.9	-4.9	-4.4		126	10	0	29	35
India		80,242	0.0	0.2	4.7	7.5	2.7		132	9	17	32	46
Philippines		6,355	0.0	3.0	1.7	-4.4	-2.7		102	9	0	18	23
Thailand		1,197	0.0	3.8	2.1	-12.2	-14.5						
Malaysia		1,540	0.0	2.6	0.9	-2.5	-6.2		95	3	6	14	25
Argentina		2,100,844	-2.7	-6.2	-0.3	44.7	-17.1		729	31	-76	-491	92
Brazil		135,067	0.0	2.2	3.0	6.2	12.3		235	2	3	23	-12
Chile		8,041	-0.2	1.5	4.4	23.8	19.8		130	2	1	11	17
Colombia		1,637	1.0	-0.4	-1.0	18.7	18.6		382	0	32	78	56
Mexico		56,259	1.2	0.9	4.6	-0.7	13.6		339	4	22	32	27
Peru		30,107	-0.8	0.5	-0.7	3.2	4.0		150	5	1	0	9
Hungary		92,196	0.0	1.6	11.0	35.6	16.2		187	15	20	37	32
Poland		98,723	0.0	-1.0	0.8	17.0	24.1		119	11	0	28	7
Romania		17,157	0.0	-1.0	-2.3	-0.4	2.6		296	24	34	114	61
South Africa		91,583	0.0	1.9	2.8	20.4	8.9		363	15	25	28	70
Türkiye		9,078	0.0	-2.5	-4.7	-11.1	-7.7		359	42	37	87	100
EM total		44	0.9	1.7	-0.2	6.7	4.6		417	30	27	88	53

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