



- **US tech stocks lead global equity collapse** ([link](#))
- **Banks raise Fed rate hike forecasts** ([link](#))
- **Higher rates pummel US corporate bond market** ([link](#))
- **Chinese tech stocks tumble** ([link](#))
- **EU decides against oil shipping ban to Russia** ([link](#))
- **Japanese government bond market faces liquidity crunch** ([link](#))

[Mature Markets](#)




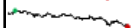







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Markets make tentative gains after days of losses

Equities across the globe are finally catching a bid after several days of losses. US equity index futures are pointing to a positive start and stocks in Europe are also stronger, with the benchmark Stoxx 600 index up over 1%. Treasury and bund yields have stabilized after a week of rising interest rates, allaying fears, at least for now, that higher rates could inflict even heavier losses on markets. Oil prices were down for a second day as the EU decided not to place a ban on European shipping carrying Russian oil, a softer stance than previously expected. However, overall market sentiment remains very cautious ahead of the release of CPI data in the US, China, Mexico, and Brazil among others. Negative surprises on inflation could trigger further losses for both stocks and bonds. Meanwhile, in its latest Financial Stability Report the US Federal Reserve highlighted ongoing liquidity problems, especially in certain commodities markets.

Key Global Financial Indicators

Last updated: 5/10/22 7:55 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		3991	-3.2	-4	-11	-5	-16	-6
Eurostoxx 50		3566	1.1	-5	-8	-11	-17	-10
Nikkei 225		26167	-0.6	-1	-2	-9	-9	-1
MSCI EM		40	-2.9	-6	-12	-26	-19	-16
Yields and Spreads			bps					
US 10y Yield		2.99	-3.9	2	29	139	148	100
Germany 10y Yield		1.03	-6.9	6	32	124	120	80
EMBIG Sovereign Spread		466	22	27	69	131	99	53
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		51.5	-0.1	-1	-3	-11	-2	-3
Dollar index, (+) = \$ appreciation		103.7	0.0	0	4	15	8	8
Brent Crude Oil (\$/barrel)		105.1	-0.8	0	2	54	35	8
VIX Index (% change in pp)		33.8	-0.9	5	13	14	17	3

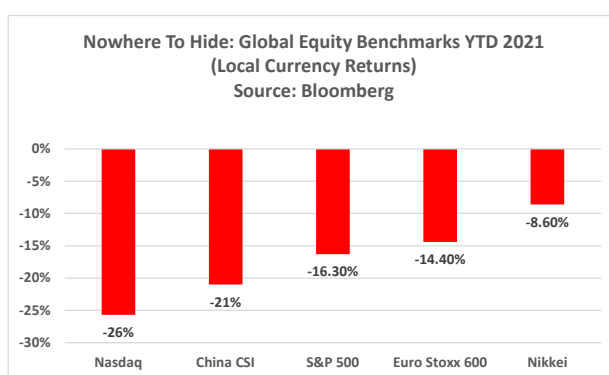
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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United States

US tech stocks are leading the way in the global equity selloff. After years of outperformance, the big technology companies are taking heavy losses that have accelerated as interest rates move surge higher and expensive valuations get squeezed. US equities more broadly are doing worse than most other developed market peers. In part, this is a partial unwind of massive outperformance over the past decade versus the rest of the world, but part of it is due to the fact that many companies in the US that benefited during the pandemic are now seeing investors heading for the exits as new sectors such as energy, defense and construction have gained in popularity. This reversal of fortune is also being seen with a number of specialized exchange traded funds (ETFs) and investment vehicles that did really well during the pandemic, such as the high tech focused ARK ETF which was down 10% intra-day, and a popular ETF that tracks companies that have just gone public also taking a large loss. In addition, the Fed is hiking most aggressively among the major central banks, putting the most pressure on local markets.



After the May 4 FOMC meeting, many banks updated their raised their forecasts for the future path of Fed policy. There are two main camps, as illustrated in the table. One group agrees with market forecasts that see the Fed Funds rate at the 3–3.25% level sometime in 2023. The other thinks the Fed will be forced to end rate hikes earlier than the market forecasts because the either economy will slow down or inflation will come under control. A small separate group thinks inflation will continue to rage and that the Fed will have to go much higher than 3–3.25%. Recent price action appears to take the latter view, with markets consumed with fear that central banks will have to raise interest rates much higher than current estimates, raising the risk of recession.

	Policy path expectations	Terminal rate
BNP	Four consecutive 50 hikes through September and then 25 bps (vs. 25 bps in July and Sept)	3.00-3.25% (unchanged)
Goldman Sachs	Revised up July: +50bps vs 25bps	3.00-3.25% by 2023 Q2 (vs 2023 Q3 previously)
MS	+50 bps for the next two meetings vs 25bps previously	2.625%
UBS	50 bps in July vs 25 bps previously and then 25bps	2.50-2.75%

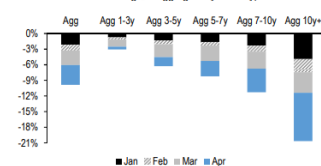
Source: BNP, Goldman, Morgan Stanley, UBS

The start of monetary policy normalization has led to some of the worst returns in decades for the US bond market. Most of the losses were caused by the impact of duration risk, especially for longer maturity bonds. Credit spreads have not widened by much, except at the bottom of the credit spectrum. Even here, spreads remain well below historical averages. The optimists think that the credit sector should remain resilient, with defaults still very

low and US companies having strong balance sheets that will enable them to weather the storm. While few expect the credit situation to deteriorate, there is a much more widespread fear that if interest rates keep going up, selling pressures could emerge from long-only instruments like ETFs and fixed income mutual funds that could see fund outflows and may be forced to sell their holdings. This could send credit spreads wider for even highly rated bonds, with the potential to inflict even larger losses on the US fixed income market.

Awful: Higher yields have punished bondholders

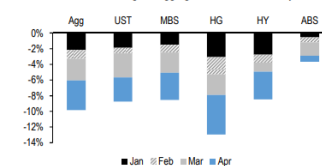
Total returns on Bloomberg US Aggregate by maturity



Source: Bloomberg Finance L.P., J.P. Morgan, As of 4/29/22

Returns by sector have mostly been driven by duration

Total returns on Bloomberg US Aggregate and JPM indices by sector



Source: Bloomberg Finance L.P., J.P. Morgan, As of 4/29/22

Current spreads are higher YTD, but remain well below 20y averages

Current spreads relative to 20y average levels and 30y recession average, bp

	High-Yield	IG	BBB	BB	B	CCC	HY/IG	BB-BBB	B-BB	CCC-B
Current	450bp	137bp	166bp	307bp	469bp	916bp	313bp	141bp	162bp	447bp
US Recession Average	971bp	252bp	355bp	561bp	925bp	2149bp	719bp	245bp	363bp	1225bp
20-year Average	574bp	150bp	190bp	374bp	563bp	1095bp	424bp	184bp	189bp	532bp
% Below US Recession Average	-54%	-46%	-53%	-45%	-49%	-57%	-56%	-42%	-56%	-64%

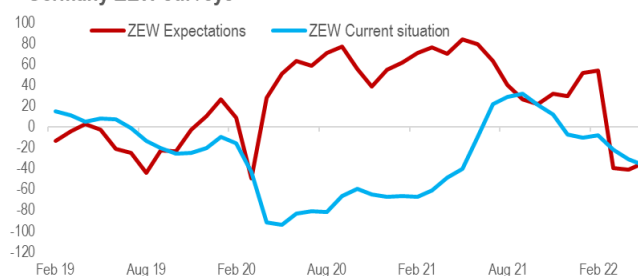
Source: TIC data, J.P. Morgan, As of 5/6/22

Euro Area

European equities were trading in the green with the benchmark Stoxx 600 European index up 1%. Gains were broad-based across sectors with the construction (+2.1%) and banking (+1.8%) sectors outperforming. European sovereign yields fell with the 10-yr bund trading -5 bps lower at 1.04%, while Southern spreads generally narrowed (Italy -3 bps to 202bps).

Investors have become slightly less pessimistic over Germany's economic outlook, with the May German ZEW institute's index of business expectations surprising to the upside while the gauge of current conditions deteriorated. The expectation index increased to -34.3 in May vs. an expected decline to -43.5 from -41 the previous month. However, the current conditions index was slightly worse than expected (-36.5 vs. -35).

Germany ZEW surveys



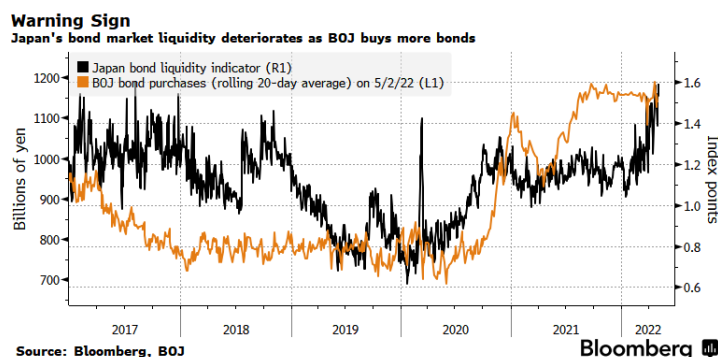
Source: Bloomberg and IMF calculations

Italian industrial production data was better than expected with the seasonally adjusted production at 3% yoy versus the forecast of 1.4%. ING analysts note that the data suggests that Italian industry remains relatively less vulnerable to disruptions in supply chains, compared to other European economies. However, they caution that ongoing supply constraints together with high energy prices and lower consumption will likely weigh on Italian industry going forward. Preliminary estimates previously showed Italy's GDP contracting by 0.2% qoq in 1Q2022, and ING analysts still expect a technical recession. However, tourism sector activity is seen to support a rebound in the third quarter.

Oil prices fell (brent crude -1.6% to \$104/barrel) as the EU decided against a ban on European ships carrying Russian oil. The move came on the heels of objections from Malta and Greece, which had the most to lose from such a ban due to their large shipping fleets. The European Commission is yet to reach an agreement with Hungary, which received two-thirds of its oil from Russia, to support an oil embargo. Hungary's foreign minister said yesterday that some progress was made in the negotiations.

Japan

Japan's bond market liquidity has deteriorated to levels last seen in 2017, based on a Bloomberg indicator. The Bank of Japan (BOJ) has committed to a yield curve control policy to buy as many 10-year Japanese Government Bonds (JGBs) as necessary to keep the 10-year yield at 0.25%. This has ended up affecting market activity and reducing liquidity. For example, the BOJ owns 76% of the JGB that matures in March 2032. In addition, the demand to borrow bonds from the BOJ has increased to one trillion yen (\$7.7 bn) as of last Friday, the most since March 2020.



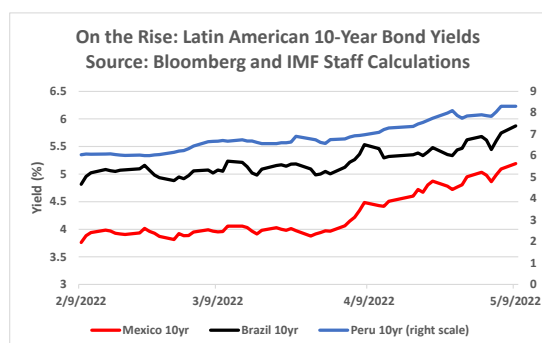
Emerging Markets

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In Asia, markets showed signs of stabilization after the recent heavy losses of yesterday and last week. **In India,** government bond yields fell sharply on news that the government wants the central bank to step in to keep a lid on rates. **In the Philippines,** Ferdinand Marcos Jr. won a landslide victory in the presidential election. **In Sri Lanka,** PM Rajapaksa resigned. Meanwhile, **Latin America** did not escape yesterday's global carnage, with every major exchange experiencing heavy losses.

Latin American Bond Markets

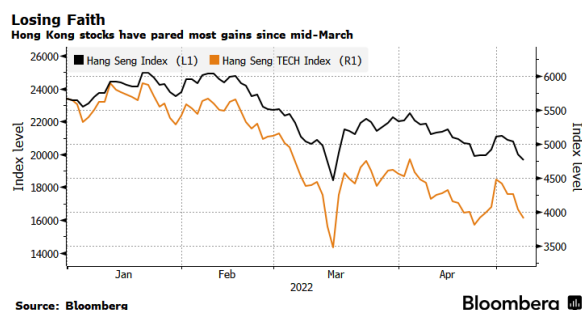
The rise of US interest rates has pushed Latin American government bond yields higher. In conjunction with a stronger dollar, analysts are worried that the move higher in rates will start to put pressure on local economies, with currency depreciation pushing inflation higher and both short and long term interest rates forcing local economies to slow down. Many local central banks were ahead of the curve and have aggressively hiked their policy rates already, but they may be forced to go even higher to keep inflation under control. The central bank of Mexico is expected to hike by 50 bps later this week. As worries about the global economy grow, many local equity markets have taken significant losses in recent days along with markets in other parts of the world.



China

Chinese tech stocks listed in Hong Kong SAR declined (-3.2%) after market reopened after a holiday. The decline broadly tracked a global selloff from last week amid concerns about China's lockdowns and continued regulatory uncertainty. Meanwhile, Shanghai further tightened restrictions to contain the spread of the virus even as the number of new infection cases dropped, and Beijing expanded the mass testing exercise. Meanwhile, the onshore CSI 300 index was up 1.1% on supportive comments from the People's

Bank of China (PBOC), with the CSI up 1.1%. In its 2022Q1 monetary policy report, the PBC reiterated earlier pledges to support the real economy, highlighting the importance of measures such as re-lending programs.







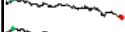







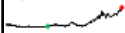



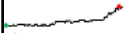

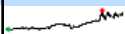




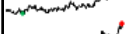




Ukraine

Talks are underway on measures that would allow the EU to finance reconstruction in Ukraine through the issuance of euro area joint debt. There are also discussions about loans guaranteed by member states to provide \$15 bn of funding for Ukraine over the coming three months. Another option being considered is to use funds from the European Investment Bank. The EU hopes to get support from other G-7 countries to contribute funds towards the rebuilding of Ukraine.

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Global Financial Indicators

Last updated: 5/10/22 7:58 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	%
United States		3991	-3.2	-4	-11	-5	-16	-6
Europe		3566	1.1	-5	-8	-11	-17	-10
Japan		26167	-0.6	-1	-2	-9	-9	-1
China		3920	1.1	0	-4	-22	-21	-15
Asia Ex Japan		67	-3.0	-6	-11	-28	-20	-16
Emerging Markets		40	-2.9	-6	-12	-26	-19	-16
Interest Rates			basis points					
US 10y Yield		2.99	-3.9	2	29	139	148	100
Germany 10y Yield		1.03	-6.9	6	32	124	120	80
Japan 10y Yield		0.25	-0.1	2	2	16	18	5
UK 10y Yield		1.85	-11.1	-11	10	106	87	37
Credit Spreads			basis points					
US Investment Grade		163	-0.1	8	24	70	51	20
US High Yield		462	-0.2	45	82	129	125	56
Europe IG		97	-0.3	8	19	47	49	26
Europe HY		468	-0.9	47	94	218	226	116
Exchange Rates			%					
USD/Majors		103.65	0.0	0	4	15	8	8
EUR/USD		1.06	0.0	0	-3	-13	-7	-7
USD/JPY		130.0	-0.2	0	4	20	13	13
EM/USD		51.5	-0.1	-1	-3	-11	-2	-3
Commodities			%					
Brent Crude Oil (\$/barrel)		105	-0.8	0	3	63	39	16
Industrials Metals (index)		180	-0.2	-6	-15	11	4	-4
Agriculture (index)		75	0.6	-1	-1	24	23	6
Implied Volatility			%					
VIX Index (% change in pp)		33.8	-0.9	4.6	12.7	14.2	16.6	2.8
US 10y Swaption Volatility		127.0	2.0	2.2	-3.1	57.8	47.9	32.7
Global FX Volatility		11.4	0.0	0.5	2.3	4.2	4.0	3.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		255	2.0	14	36	135	104	15
Italy		199	-6.4	7	30	85	64	28
Portugal		114	-1.6	4	21	44	50	22
Spain		109	-2.5	3	10	42	35	6

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

Last updated: 5/10/2022 8:01 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M			Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
	vs. USD		(+)= EM appreciation						% p.a.							
China		6.72	0.1	-1.7	-5	-5	-5	-6		2.9	-3.0	-2	0	-32	1	0
Indonesia		14555	0.1	-0.4	-1	-2	-2	-1		7.4	13.2	43	62	101	103	92
India		77	0.2	-0.9	-2	-5	-4	-4		6.3	0.0	0	9	75	0	
Philippines		52	0.5	0.1	-1	-9	-3	-2		5.4	0.0	5	10	104	88	38
Thailand		35	0.1	-0.6	-3	-10	-4	-7		3.2	-4.0	23	65	124	139	102
Malaysia		4.38	0.1	-0.7	-3	-6	-5	-5		4.4	-3.2	0	36	126	77	69
Argentina		117	-0.4	-0.9	-4	-20	-12	-8		52.6	-4.9	-18	234	623	202	463
Brazil		5.15	0.2	-3.7	-9	2	8	-3		12.3	-24.0	5	54	291	160	76
Chile		869	-1.2	-0.9	-6	-20	-2	-9		6.5	0.0	22	-9	308	112	63
Colombia		4089	-1.0	-2.0	-9	-9	-1	-4		9.0	0.0	27	100	316	259	113
Mexico		20.37	0.1	-0.4	-2	-2	1	-1		9.1	0.0	8	34	233	156	124
Peru		3.8	-0.2	0.3	-3	-3	5	-2		8.3	2.2	47	136	342	243	233
Uruguay		42	-0.4	-1.5	-1	5	7	2		10.1	0.0	0	77	268	134	191
Hungary		360	0.2	0.7	-3	-18	-10	-11		7.3	11.0	32	67	483	281	251
Poland		4.43	0.3	0.7	-3	-15	-9	-8		6.5	-3.0	60	113	463	300	263
Romania		4.7	0.0	0.4	-3	-13	-7	-7		7.5	9.4	68	121	487	265	232
Russia		69.7	-0.4	-1.9	20	7	8	17		12.0	0.8	-37	-22	483	326	85
South Africa		16.1	0.3	-2.2	-10	-13	-1	-6		8.8	1.5	35	75	137	139	123
Turkey		15.24	-1.1	-2.8	-4	-46	-13	-9		23.5	50.0	222	-191	544	-81	109
US (DXY; 5y UST)		104	0.0	0.2	4	15	8	8		2.90	-4.4	-12	15	212	164	100

	Equity Markets							Bond Spreads on USD Debt (EMBIG)								
	Level		Change (in %)				YTD	Since 23-Feb-22	Level		Change (in basis points)				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M			Last 12m	Latest	7 Days	30 Days	12 M			
									basis points							
China		3920	1.1	0	-4	-22	-21	-15		203	3	-2	-8	0	-5	
Indonesia		6820	-1.3	-5	-5	15	4	-1		195	16	37	26	30	10	
India		54365	-0.2	-5	-8	11	-7	-5		175	6	18	9	43	21	
Philippines		6721	-0.6	0	-4	6	-6	-9		148	14	37	53	47	11	
Thailand		1623	1.1	-3	-3	3	-2	-4		0	0	0	0	0	0	
Malaysia		1555	0.3	-3	-3	-1	-1	-2		129	4	16	5	12	-4	
Argentina		82244	-4.9	-6	-11	59	-2	-10		1846	28	132	289	166	109	
Brazil		103250	0.0	-3	-13	-15	-2	-8		313	12	30	67	2	-18	
Chile		4744	0.0	-1	-5	3	10	8		179	4	37	43	39	5	
Colombia		1511	-2.9	-5	-7	15	7	0		403	19	78	175	55	11	
Mexico		49057	-1.0	-5	-10	-2	-8	-4		386	0	46	57	54	16	
Peru		20038	-4.1	-10	-17	-4	-5	-14		203	-6	28	45	53	13	
Hungary		40944	-1.5	-6	-3	-8	-19	-14		200	11	51	57	76	47	
Poland		53819	-0.7	-5	-16	-14	-22	-14		10	8	10	-29	-22	-6	
Romania		12269	0.4	-2	-4	5	-6	-7		243	10	43	61	50	11	
Russia		2393	0.0	-1	-8	-35	-37	-22		3411	-577	938	3228	3234	2897	
South Africa		67318	0.8	-6	-10	-2	-9	-10		422	37	99	87	67	33	
Turkey		2482	0.7	2	4	70	34	23		566	59	35	99	-12	3	
Ukraine		519	0.0	0	0	-2	-1	0		3540	-192	586	3020	2781	2067	
EM total		40	0.4	-6	-12	-26	-19	-16		414	19	43	60	28	-44	

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

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