



- US corporates report solid Q1 earnings but provide cautious forward guidance ([link](#))
- EU considers postponing Russian oil sanctions ([link](#))
- Markets price further rate hikes in Eastern Europe despite signals of a slower pace ([link](#))
- China's credit growth slows sharply in April amid the COVID-19 outbreak ([link](#))
- Mexican central bank hikes 50 bps and hints at increasing pace going forward ([link](#))
- Central bank of Peru lifts policy rate 50 bps citing strong inflationary pressures ([link](#))

[Mature Markets](#)





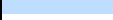
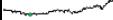
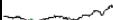
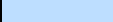



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Global risk aversion tentatively recedes

Global equity markets are taking a breather from the recent sell-off this morning as investors mull central bank communication on the pace of future policy tightening. Major equity indices in Asia posted gains close to 2% and European stocks are rebounding by over 1%. Despite a volatile trading day that saw the S&P 500 pull nearly level yesterday by the close, the index ultimately registered its 5th decline in the last 6 trading sessions, though futures are pointing to gains at the open this morning as risk sentiment has steadied. Bond markets in the US and Europe have seen sovereign yield curves resume steepening with front-end yields stabilizing as multiple Fed speakers pushed back against speculation of more aggressive policy rate hikes and re-assured the central bank's commitment to getting on top of inflation. The volatility in crypto assets has also calmed for the moment with Bitcoin gaining despite a week of rising uncertainties around stablecoins. In commodity markets, oil prices have rebounded over the last day following warnings of supply shortages from the IEA and European natural gas prices continue to see large swings amid uncertainties around potential supply disruptions from Russia. Central bank decisions were in focus in emerging markets where policy rates were hiked 50 bps in both Mexico and Peru alongside guidance for further rate increases given growing complexity around the outlook for inflation.

Key Global Financial Indicators

Last updated: 5/13/22 8:06 AM	Level		Change from Market Close					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities			%				%	
S&P 500		3930	-0.1	-5	-12	-4	-18	-7
Eurostoxx 50		3669	1.5	1	-4	-7	-15	-8
Nikkei 225		26428	2.6	-2	-2	-6	-8	0
MSCI EM		39	-0.7	-5	-12	-24	-19	-17
Yields and Spreads			bps					
US 10y Yield		2.91	6.5	-21	21	126	140	92
Germany 10y Yield		0.91	7.1	-22	15	103	109	68
EMBIG Sovereign Spread		474	4	34	63	143	107	61
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		51.6	-0.2	-1	-3	-10	-2	-3
Dollar index, (+) = \$ appreciation		104.8	-0.1	1	5	15	10	9
Brent Crude Oil (\$/barrel)		109.1	1.5	-3	0	63	40	13
VIX Index (% change in pp)		30.5	-1.3	0	9	7	13	-1

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

Mature Markets

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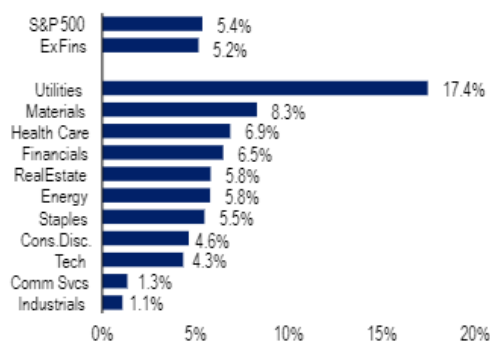
United States

Yesterday, risk sentiment continued to be weighed down by concerns that inflation may not subside enough to avoid stagflation. Higher than expected PPI (headline 11% y/y vs. 10.7% expected, core 6.9% y/y vs. 6.6% expected) initially pressured US stocks lower, but comments from Fed officials talking down the possibility of 75 bp hikes in the near term (Fed Chair Powell and San Francisco Fed President Daly) helped to lift stocks from lows late in the trading session. Treasury yields fell and the curve steepened with 2-year yields down 7 bps and 10-year yields down 6 bps, on the back of continued tightening in inflation expectations (10-year, -10 bps). **The 10-year nominal Treasury yield is on track for its largest weekly decline since March 2020.**



Q1 corporate earnings remained solid, but weak guidance points to downside risks. With 90% of S&P 500 firms having reported, earnings-per-share (EPS) has risen 11% yoy, with all sectors coming ahead of expectations and 56% of firms beating both sales and EPS. However, corporate sentiment deteriorated sharply, as the number of firms expecting weak demand rose to the highest level since the onset of COVID. Measures of earnings guidance as well as earnings revisions have also plummeted, which typically points to downside risks to earnings ahead.

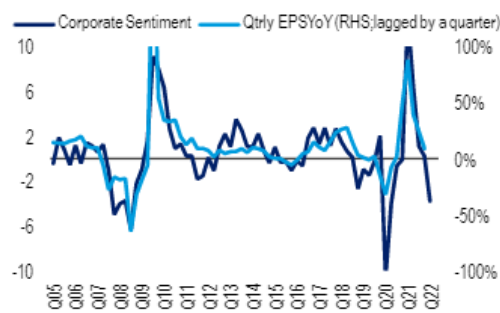
Revision to consensus 1Q22 earnings since start of April



Source: FactSet, BofA US Equity & Quant Strategy

BoFA GLOBAL RESEARCH

S&P 500 avg. negative sentiment score YoY vs. quarterly EPS YoY with a quarter lag (r-sq=53%; 1Q05-1Q22)



Source: BofA Global Research, FactSet

BoFA GLOBAL RESEARCH

Euro area

European equity markets were trading in the green (Stoxx 600 European index +1.3%) with the travel and leisure (+2.6%), technology (+2.0%) and banking (+1.7%) sectors outperforming. That said, banking sector shares are trading roughly -11% lower YTD. **Scope Ratings analysts expect German banks' strong 2021 performance to weaken in 2022** despite solid results in 1Q2022, as inflation pushes up costs and the war in Ukraine weighs on economic growth and increases risk. Analysts expect German banks to be able to manage the economic deterioration.



The euro was little changed trading at around 1.0389 against the U.S. dollar as expectations mount that the euro will fall below parity with the US dollar. Early morning gains were reversed after data showed eurozone industrial production data tumbling in March. **Eurozone industrial production fell to -1.8% mom in March from +0.5% (vs expected -2%)**. JPMorgan analysts highlight that the war in Ukraine weighed on production, with the impact mainly seen in Germany as a result of its dependency on the Eastern European supply chain. Elsewhere on the data front, final April inflation prints for France (+5.4% y/y), Spain (+8.3% y/y) confirmed earlier estimates.

European sovereign yields increased (10-yr bund yield +5 bps) in line with US Treasuries, while peripheral spreads were little changed. ECB Governing Council (GC) member Makhlouf indicated yesterday that interest rates will likely be positive in early 2023, in line with comments from GC member Kazimir who hinted that he is supportive of a rate hike in July. This morning GC member Centeno noted that monetary policy normalization is necessary and noted that he does not see evidence of de-anchoring inflation expectations, and ECB Vice President de Guindos said that bond purchases will come to an end in July. **Markets are pricing in roughly 81 bps of tightening in 2022.**

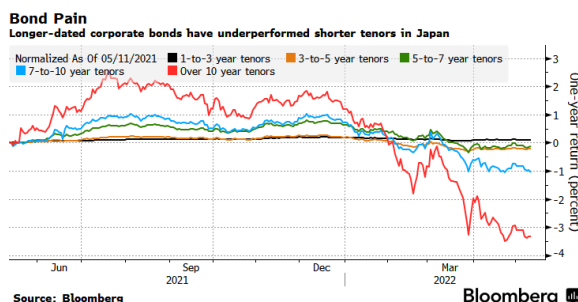
The EU is reportedly considering postponing oil sanctions in order to reach agreement and proceed with the EU's sixth sanction package. EU officials are yet to reach an agreement on a Russian oil embargo, and while some are still hoping to implement the fully proposed sanction package, which includes sanctions on Russian oil, contacts are skeptical that an agreement will be reached by Monday. Bloomberg reports that some EU members are supportive of delaying oil sanctions while others caution that such a move would be perceived as a sign of weakness.

Japan

Governor Kuroda said that monetary easing must stay in place to support the economic recovery.

The Bank of Japan (BOJ) has not yet achieved its price objective after years of easing. A rate hike would worsen the economy. In addition, he said that it is extremely important for foreign exchange rates to move in a stable manner and reflect economic fundamentals. **Credit investors reportedly are more willing to come back and buy corporate bonds.**

The BOJ's unlimited fixed-rate bond purchase operations help keep corporate borrowing costs low, while credit investors can now buy corporate bonds (up to 10 years maturity) without worrying about a rise in bond yields, which had hurt them earlier this year. The stable bond yields also support corporate bond issuances, which were put on hold amid rising bond yields. Japanese equities gained (NIKKEI: +2.6%); Japanese yen depreciated (-0.5%); long-end JGB yields edged down (10-year: -0.1 bp; 30-year: -0.7 bp).



Emerging Markets

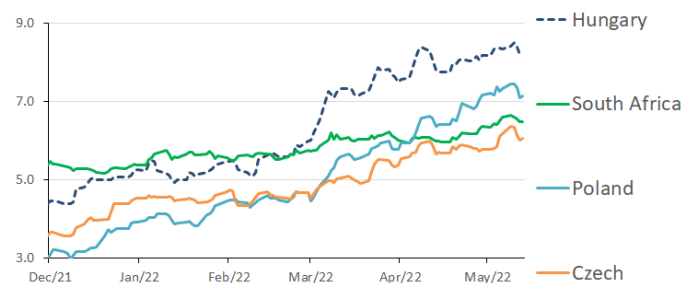
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Latin American markets were mixed yesterday. Equities and currencies in Brazil and Mexico gained. In Peru, equities saw a sixth straight session of losses, while the currency appreciated (+0.7%) against the USD. **Asian equities rebounded**, gaining 2.2%, led by Hong Kong (+2.7%) and Korean (+2.1%) equities. **Asian currencies were mixed, and long-end government bond yields generally increased**, with 10-year yields rising in Philippines (+33.4 bps) and India (+9.9 bps). In **Hong Kong SAR**, the government cut its 2022 growth forecast to 1%-2%, from 2%-3.5%. In **Malaysia**, real GDP grew 3.9% q/q in 2022Q1, stronger than expectations (consensus: +2.5%). Equities gained (+0.4%); Malaysian ringgit depreciated (-0.1%). **EMEA equities traded higher across the region**, with particularly strong gains in Poland (+2.6%) and Hungary (+2.7%). The Czech koruna (+0.9%) continues to gain after the central bank intervened yesterday with the Hungarian forint (-0.3%) weaker as Hungary continues to resist a ban on Russian oil imports. **The Turkish lira (-0.6%) continues to underperform, for a total depreciation of 3.3% against the U.S. dollar in the past week.**

Monetary Policy Outlook in Eastern Europe

Swap rates have traded lower in the Czech Republic, Hungary, and Poland in the past week as money markets price in further hikes, but some regional policymakers are signaling a potential slowdown in the pace of tightening. For the next three months, money markets are pricing in another 48 bps of hikes in the Czech Republic, 59 bps in Hungary and 63 bps in Poland. Nevertheless, newly appointed governor Michl of the Czech National Bank (CNB) opposed the CNB's hike of 75 bps on May 5, arguing that it would be more appropriate to leave interest rates unchanged. Deputy governor Virag of Hungary's central bank said that the bank is transitioning to a more gradual phase of monetary tightening.

Eastern Europe: 2-yr swap rates (local currency, %)



Source: Bloomberg and IMF staff.

China

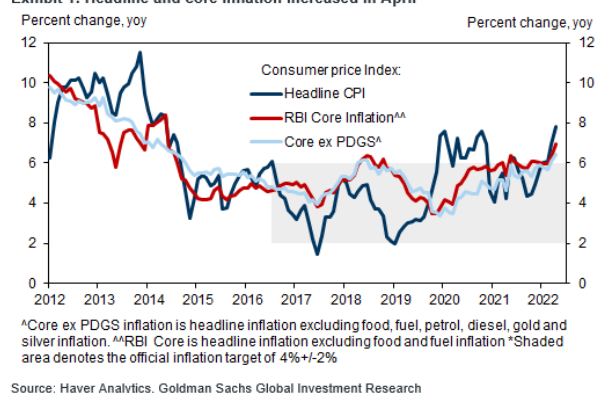
Credit growth slowed sharply in April amid the recent COVID-19 outbreak. Aggregate financing increased 910 bn yuan (\$134 bn), lower than expected (consensus: 2,200 bn yuan), while new RMB loans amounted to 645 bn yuan (\$95 bn) (consensus: 1,530 bn yuan). Credit demand appears weak, as banks have aggressively bought commercial papers, driving the interest rate on bankers' acceptances maturing in one month to near-zero. In its Q&A statement accompanying the data release, the People's Bank of China (PBC) said that the slowdown in lending reflects the impact of the COVID-19 outbreak. Companies, especially SMEs, are facing greater challenges, and their funding demanding dropped sharply. Chinese equities gained (CSI 300: +0.8%), while RMB depreciated (-0.1%). The PBC continued setting RMB fixing stronger than expected (today, 69 pips stronger). Meanwhile, interbank repo rates (DR007: 1.57%) remain below the policy rate (at 2.1%), pointing to ample liquidity conditions.

India

CPI increased 7.8% y/y in April, above expectations (consensus: 7.4% y/y), reflecting a broad-based rise across food, fuel and core inflation. The economic re-opening also started adding inflationary pressure.

Industrial production increased 1.9% y/y in March, stronger than expected (consensus: +1.3%). Analysts now expect more front-loaded rate hikes by the Reserve Bank of India. Long-end government bond yields rose (10-year: +9.9 bps; 30-year: +17.3 bps). Indian rupee was little changed; equities gained (+0.2%).

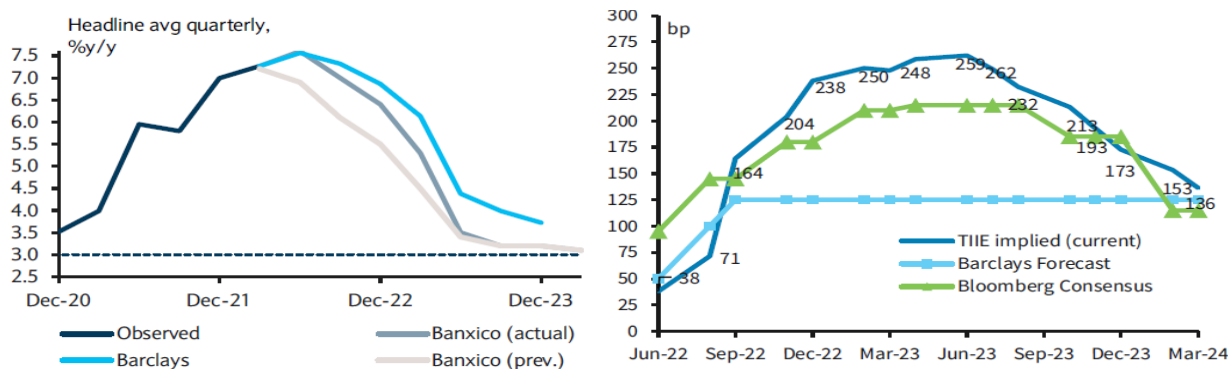
Exhibit 1: Headline and core inflation increased in April



Mexico

The central bank (Banxico) hiked rates by 50 bps to 7% and exhibited a hawkish tone in its forward guidance. Notably, one of the five monetary policy committee members voted for a larger (75 bp) hike in the current round. Banxico also revised upwards the inflation forecast for the rest of the year by ~70–90 bps and identified the drivers to be high and persistent core inflation, lockdowns in China, and the war in Ukraine. Having set this backdrop, the bank further indicated to possible larger hikes in the forthcoming meetings. Analysts believe, in addition to the factors stated by Banxico, further tightening in global financial conditions could cause the central bank to go for larger hikes. While local equities and the peso were little changed, the overnight TIIE (Interbank Equilibrium Interest Rates) curve flattened as the front end moved higher, yesterday.

The central bank of Mexico inflation estimates revised upwards

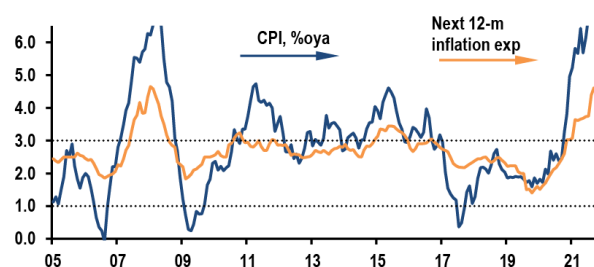


Sources: Central Banks of Mexico, Barclays, and Bloomberg

Peru

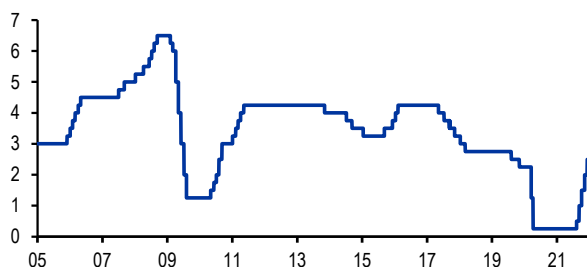
The central bank hiked rates by 50 bps to 5% while citing persistent inflation in tradable goods, including food and energy in its statement. April headline inflation came in at 7.96%. In addition, the central bank stated that it aims to maintain the same pace of tightening going forward to keep inflation expectations anchored and bring inflation within its target range (1% - 3%) by 2Q/3Q 2022. However, as per a JP Morgan report, the market participants are expecting some persistence in inflation, which it understands to have been associated with possible fresh withdrawals from pension funds.

Headline and expected inflation (Percent)



Sources: INEI, BRCP, Bloomberg, and JP Morgan

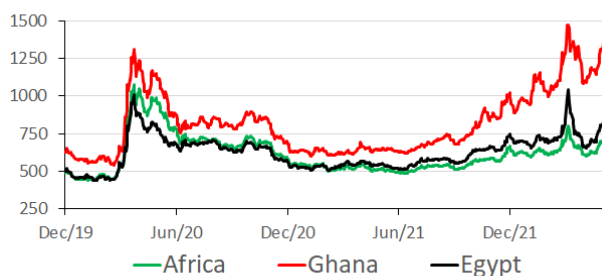
Policy rate (Percent)



Africa Eurobond Spread

The region-wide EMBIG spread on African Eurobonds is trading close to 2022 highs (around 773 bps) but remains below the +1000-bps reached at the start of the pandemic, even as some countries are experiencing more stress.

Africa: EMBIG spreads on U.S. dollar bonds (bps)




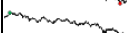
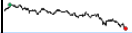
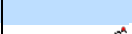
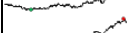


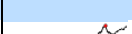
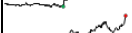


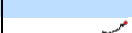
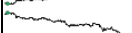
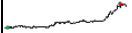

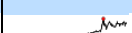
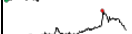

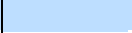

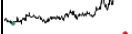



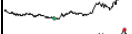
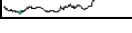


Source: Bloomberg and IMF staff

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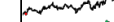


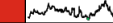












Global Financial Indicators

Last updated: 5/13/22 8:08 AM	Level		Change					Since
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	23-Feb-22
Equities			%				%	%
United States		3952	-0.1	-4	-11	-4	-17	-6
Europe		3669	1.5	1	-4	-7	-15	-8
Japan		26428	2.6	-2	-2	-6	-8	0
China		3989	0.8	2	-5	-22	-19	-14
Asia Ex Japan		66	-0.4	-5	-11	-26	-20	-16
Emerging Markets		39	-0.7	-5	-12	-24	-19	-17
Interest Rates			basis points					
US 10y Yield		2.91	6.5	-21	21	126	140	92
Germany 10y Yield		0.91	7.1	-22	15	103	109	68
Japan 10y Yield		0.25	-0.2	0	1	15	18	5
UK 10y Yield		1.72	6.2	-27	-8	83	75	24
Credit Spreads			basis points					
US Investment Grade		163	-0.4	7	18	67	51	20
US High Yield		484	-2.8	56	86	141	146	77
Europe IG		93	-2.7	-4	13	41	45	21
Europe HY		448	-11.5	-14	70	189	207	96
Exchange Rates			%					
USD/Majors		104.76	-0.1	1	5	15	10	9
EUR/USD		1.04	0.1	-2	-5	-14	-9	-8
USD/JPY		129.0	0.5	-1	3	18	12	12
EM/USD		51.6	-0.2	-1	-3	-10	-2	-3
Commodities			%					
Brent Crude Oil (\$/barrel)		109	1.5	-3	1	72	44	20
Industrials Metals (index)		177	-0.5	-6	-16	11	2	-6
Agriculture (index)		77	0.3	2	0	30	26	9
Implied Volatility			%					
VIX Index (% change in pp)		30.5	-1.3	0.3	8.6	7.3	13.2	-0.6
US 10y Swaption Volatility		119.6	0.3	-3.1	3.3	48.7	40.6	25.3
Global FX Volatility		11.4	0.0	0.3	2.4	4.1	4.0	3.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)					
Greece		250	-2.2	5	43	132	98	10
Italy		191	4.0	-9	30	73	56	20
Portugal		111	1.6	-3	11	39	46	19
Spain		104	0.1	-6	10	33	30	1

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

Emerging Market Financial Indicators

Last updated: 5/13/2022 8:10 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		6.79	0.0	-1.8	-6	-5	-6	-7		2.9	1.0	-3	4	-31	2	1
Indonesia		14613	-0.1	-0.8	-2	-3	-2	-2		7.4	-1.6	40	45	95	100	89
India		77	0.0	-0.7	-2	-5	-4	-4		6.3	0.0	0	9	75	0	
Philippines		52	0.0	0.1	-1	-9	-3	-3		5.4	0.0	5	15	109	93	43
Thailand		35	-0.2	-1.3	-3	-10	-4	-7		3.3	6.5	7	73	144	147	110
Malaysia		4.40	-0.1	-0.7	-4	-6	-5	-5		4.4	2.5	-2	39	130	85	77
Argentina		117	-0.1	-0.9	-4	-20	-12	-9		53.1	26.0	28	303	722	253	514
Brazil		5.12	0.2	-0.9	-8	4	9	-2		12.5	-4.5	-6	63	299	183	100
Chile		863	0.0	-0.2	-7	-18	-1	-8		6.2	0.0	-30	-11	264	82	33
Colombia		4111	-0.6	-0.7	-9	-9	-1	-5		9.0	0.0	6	109	315	258	111
Mexico		20.21	0.2	-0.4	-2	-1	2	0		8.7	-5.0	-34	-1	169	118	86
Peru		3.8	0.7	0.7	-1	-1	6	-1		8.0	-3.5	-34	67	318	206	196
Uruguay		42	-0.5	-0.8	-1	6	7	1		10.1	-0.1	6	83	272	140	197
Hungary		371	-0.4	-2.4	-7	-20	-12	-14		7.1	-5.0	-1	84	443	258	228
Poland		4.51	-0.4	-1.1	-6	-17	-11	-10		6.2	7.1	-11	102	430	270	233
Romania		4.8	0.1	-1.5	-5	-14	-9	-8		7.9	-13.0	85	146	523	308	275
Russia		65.5	-1.4	3.7	26	13	15	25		11.4	3.5	-60	-139	402	264	24
South Africa		16.1	-0.3	-0.9	-10	-13	-1	-6		8.5	6.5	-20	43	90	104	88
Turkey		15.45	-0.5	-3.2	-6	-45	-14	-11		25.2	-24.0	226	125	697	85	275
US (DXY; 5y UST)		105	-0.1	1.1	5	15	9	9		2.86	4.3	-21	21	204	160	96

	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		3989	0.8	2	-5	-22	-19	-14		207	4	0	-2	4	-1	
Indonesia		6598	0.0	-9	-9	11	0	-5		216	33	42	54	51	31	
India		52794	-0.3	-4	-10	8	-9	-8		178	5	13	14	46	24	
Philippines		6379	-2.3	-7	-9	2	-10	-13		172	31	51	84	71	35	
Thailand		1584	0.0	-3	-5	2	-4	-7		0	0	0	0	0	0	
Malaysia		1544	0.4	-1	-3	-2	-1	-3		134	7	19	13	17	1	
Argentina		85521	-0.3	-1	-6	63	2	-6		1887	99	153	315	207	150	
Brazil		105688	0.0	0	-10	-12	1	-6		313	23	24	73	2	-18	
Chile		4714	0.0	-3	-4	6	9	8		177	13	29	46	37	3	
Colombia		1506	-0.2	-3	-7	19	7	0		390	15	48	160	42	-2	
Mexico		49309	0.1	-2	-9	1	-7	-4		390	21	43	61	58	20	
Peru		19211	-2.7	-9	-19	-11	-9	-18		199	7	23	48	49	9	
Hungary		41102	2.8	-2	-4	-9	-19	-14		209	18	49	74	85	56	
Poland		54609	2.9	-1	-15	-12	-21	-13		7	0	-5	-31	-25	-9	
Romania		12154	0.8	-1	-4	5	-7	-8		242	16	36	66	49	9	
Russia		2309	0.5	-3	-9	-37	-39	-25		3411	-577	938	3228	3234	2897	
South Africa		67610	0.5	-1	-8	2	-8	-10		427	42	87	100	72	38	
Turkey		2411	0.8	-2	-2	67	30	20		594	72	54	127	16	31	
Ukraine		519	0.0	0	0	-2	-1	0		3401	-121	313	2887	2642	1928	
EM total		39	1.3	-5	-12	-24	-19	-17		416	24	30	63	30	-42	

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

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