



- US corporates post robust earnings thus far ([link](#))
- Corporate default composition shows a benign picture in the US ([link](#))
- Investors withdrew €10bn from euro-denominated real estate funds in the past year ([link](#))
- Japan's Finance Minister Suzuki express concerns over yen weakness ([link](#))
- Brazil's policy rate expectations revised upwards amid inflationary pressures ([link](#))

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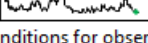
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Equities slip on light volume ahead of Fed minutes and earnings releases

While equity markets remain near their all-time highs, indices are lower this morning on relatively light trading. While Fed speakers will gain some attention by investors, much of today's focus is on tomorrow's earnings release by Nvidia. The company, whose stock has risen 90% so far this year, is seen as a bellwether for AI as well as for the tech sector more broadly. Despite a number of interviews with Fed officials yesterday, markets interpreted little that was new. The speakers continued to argue that more data is needed before the board becomes confident that inflation is heading back to target, and that talk of interest rate cuts is premature. European stocks are down about 0.5% this morning and equity futures point to a modestly lower opening in the US as well. According to Bloomberg, yesterday saw the lowest turnover on the New York Stock Exchange so far this year (as measured in the value of stocks traded). It is expected that volume will remain light today as investors await not only earnings news but also tomorrow's release of the Fed minutes. In emerging markets today, the central bank of Hungary cut its interest rates by 50 bp as was largely expected. The forint was little changed on the announcement.

Key Global Financial Indicators

Last updated: 5/21/24 8:17 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5308	0.1	2	7	27	11.29
Eurostoxx 50		5040	-0.7	-1	2	15	11
Nikkei 225		38947	-0.3	2	4	25	16
MSCI EM		44	-0.4	2	10	12	9
Yields and Spreads			bps				
US 10y Yield		4.43	-1.4	-1	-19	76	55
Germany 10y Yield		2.53	-0.3	-2	3	10	50
EMBIG Sovereign Spread		362	-2	-5	20	-120	-22
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		47.3	0.1	1	3	-6	-2
Dollar index, (+) = \$ appreciation		104.6	0.0	0	-2	1	3
Brent Crude Oil (\$/barrel)		82.3	-1.7	0	-6	9	7
VIX Index (% change in pp)		12.5	0.3	-1	-6	-4	0

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

Mature Markets

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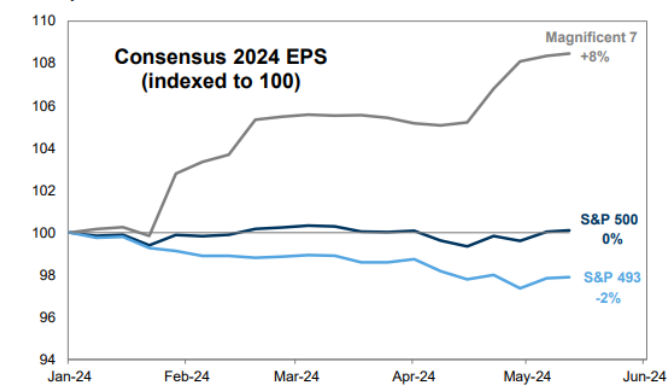
United States

Equities are hovering around historical highs, and the VIX is around its year-to-date low. The information technology sector outperformed the overall S&P 500 on Monday, two days ahead of Nvidia's results. Treasury 10-year yields edged higher by 2bp. Elsewhere, commodities are higher, led by agricultural products. Notably, Chicago wheat futures surged the most since last August, briefly touching the daily exchange price limit, amid renewed concerns about the drought in the Black Sea region.

Corporate earnings have been robust:

Results from 90% of the market cap of the S&P 500 have now been released, and 2024q1 y/y EPS growth for the aggregate index and median stock is +6% and +7%, beating the expectation of +3% before reporting season, according to analysts. Revisions to consensus 2024 EPS estimates have been better due to upward guidance from the largest firms. Analysts have lowered 2024 EPS estimates for the S&P 493 by 2% but lifted estimates for the Magnificent Seven by +8%, so the aggregate 2024 S&P 500 EPS forecast has been flat. The report from Nvidia, the world's most valuable chipmaker and one of the Magnificent Seven, is scheduled for Wednesday: The share price has surged 91% year-to-date in anticipation that the firm will post q1 sales of \$25bn (+241% versus last year). Options markets were pricing in an 8.6% swing in Nvidia share price for the session after earnings.

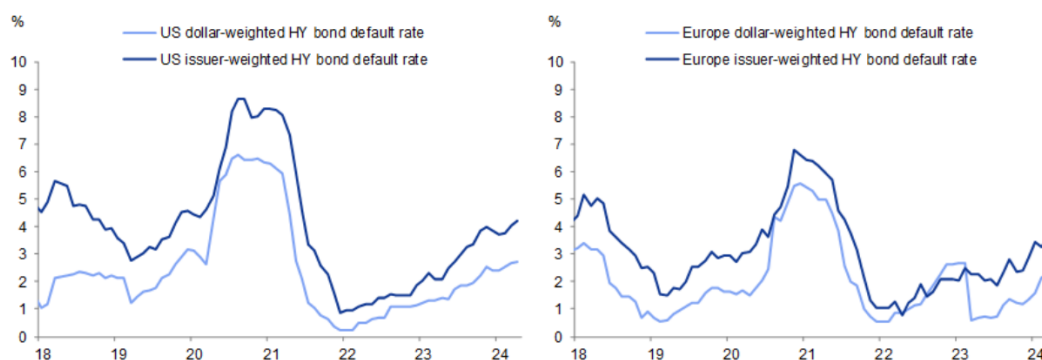
Exhibit 2: Revisions to 2024 S&P 500, Magnificent 7, and S&P 493 EPS
as of May 16, 2024



Source: FactSet, Goldman Sachs Global Investment Research

While headline issuer-weighted default rates are still slightly above their long-run averages, the composition of defaults continues to paint a more benign picture. The dollar-weighted default rates remain lower than the issuer-weighted ones, suggesting that defaults remain largely skewed toward smaller firms. This pattern is also visible in the CDX HY and iTraxx Xover, CDS indices, which lean more toward large issuers. The former has experienced only one default over the past 12 months, while the latter has yet to experience any defaults. Analysts pointed out that the bulk of defaults continues to be "soft" in nature, involving distressed exchanges that are less costly and time-consuming than a formal bankruptcy procedure. This partly explains why recovery rates have held up relatively well.

Exhibit 5: The dollar-weighted default rate remains lower than the issuer-weighted one, suggesting that defaults remain largely skewed towards small firms



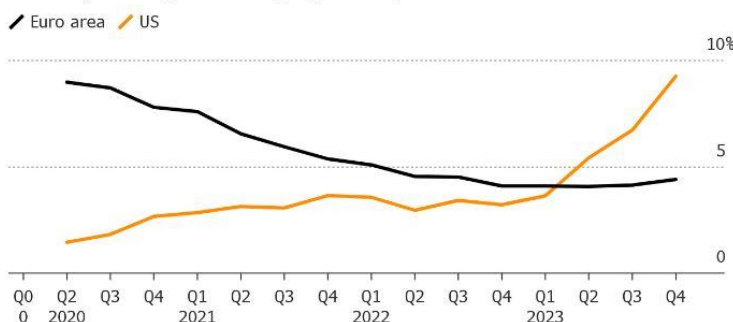
Source: Moody's, Goldman Sachs Global Investment Research

Europe

European equities pared recent gains on a relatively quiet day on the data front as investor focus shifts to earnings from Nvidia due tomorrow. The STOXX 600 index was lower (-0.2%) in early morning trading led by declines in the utilities (-0.9%) and financials (-0.6%) sectors. Elsewhere, 10y bund yields were lower (-2bp) trading at around 2.50%. On the data front, German PPI data for April came in a touch softer than expectations with prices declining by 3.3% y/y in April (-3.1%y/y exp, -2.9% prior), although there was little immediate reaction to the release. Investor attention remains on this week's flash euro area PMI data and Q1 negotiated wage data due for release on Thursday. Market pricing for ECB rate cuts in 2024 was broadly unchanged this morning with around 68bp of easing priced in for this year and the first 25bp rate cut close to fully priced in. The euro was broadly flat against the dollar trading around 1.0861.

Retail investors withdrew €10bn from euro-denominated real estate funds in the past year. According to Morningstar fund data, in the year through April, retail investors withdrew around €10.2bn from euro-denominated property funds leaving total net assets held by open-ended and exchange-traded property funds below €163bn in April. In its latest Financial Stability Report, the ECB noted that declines in the commercial property market may present a challenge for real estate investment funds as valuation losses may not have been fully priced in. With demand for offices falling, the report noted that commercial property prices could decline further which would impact the asset quality of some lenders in the sector.

Commercial Property Bad Loan Ratios Start to Rise in Euro Area
CRE non-performing loan ratio by region of exposure



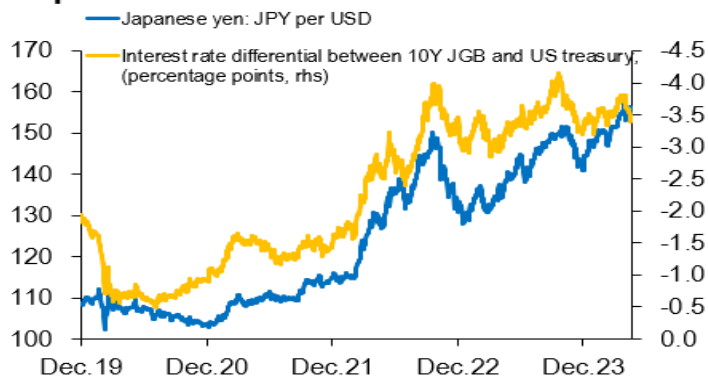
Source: European Central Bank

Bloomberg

Japan

Japanese equities declined 0.3%. Japan's Finance Minister Suzuki expressed concerns that yen weakness may keep prices elevated, which may challenge the government's major goal to achieve wage increases above inflation. At a regular post cabinet briefing, he also reiterated that excessive volatility in the currency market is unwelcome and that authorities are monitoring it closely and will respond appropriately as needed. He added that the government would implement appropriate debt management policies to ensure stable issuance of government bonds. Separately, Japan and Singapore renewed a bilateral swap arrangement, keeping the size unchanged—Singapore can swap Singapore dollars for up to \$3bn or equivalent in yen

Japanese Yen



Sources: Bloomberg and IMF staff calculations

from Japan, while Japan can swap yen for up to \$1bn from Singapore. The yen and 10Y bond yields were little changed.

Emerging Markets

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Asian equities declined 0.8% on net, as the recent Chinese stimulus-driven rally cooled. Hong Kong SAR (-2.1%) led the decline, dragged by technology stocks. Asian currencies mostly depreciated. The Thai baht (-0.8%) and Philippine peso (-0.6%) weakened. Thailand's Finance Minister Pichai says the government is working on a supplementary budget of potentially as much as 122bn baht (\$3.4bn) to finance its cash handout scheme; details will be submitted to cabinet on May 28. Philippines' central bank (BSP) warned of intervention in the currency market, after the peso weakened past the 58 per dollar level. 10Y bond yields were little changed. **EMEA equities are mostly higher today**, while currencies are mixed. In CEE, the stock market was in the green in Hungary (+0.5%) and in Czechia (+0.4%), but down in Poland (+0.2%). The Czech koruna was little changed against the euro this morning (+0.1%), after yesterday's data showed lower than expected producer prices growth in April (1.4%/y vs est. 1.5%). Ahead of this afternoon's policy decision, where the National Bank of Hungary was expected to cut the base rate by 50bp to 7.25% the Hungarian forint was broadly unchanged. Meanwhile, in Türkiye, equities outperformed (+2.0%) while the lira was stable against the dollar. The stock market edged lower (-0.5%) in South Africa while the rand was stable. **LATAM markets mostly traded higher on Monday**, as equities gained 0.6–1.9% and regional currencies strengthened 0.1–0.3%. However, markets in Brazil and Mexico were notable exceptions. In Brazil, fiscal concerns weighed on market sentiment causing the equities to slide (-0.3%) and the currency (unchanged) to underperform its regional peers. In Mexico, where equities closed the day 0.3% lower, the markets toned down their expectations on central bank hawkishness after April retail data came in weaker than expected.

China

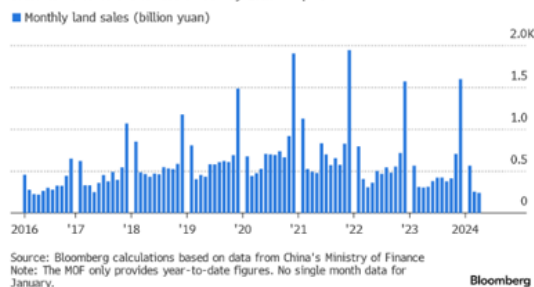
Chinese equities declined 0.4%. Meanwhile, China tech stocks remain at a wide discount to US peers in terms of forward-earnings estimates, with investors seeing valuation appeal in the sector. **China's local governments raised the least amount of revenue from land sales since May 2016, at 238.9bn yuan (\$33bn) in April, Bloomberg calculated.** Market participants said recent data highlighted a deepening housing slump, which resulted in authorities responding with a new set of property related measures last week. Separately, China's youth unemployment rate excluding students fell to 14.7% in April (previous: 15.3%), the National Bureau of Statistics reported. 10Y bond yields and renminbi were little changed.

China Tech Stocks Remain at Wide Discount to US Peers



China's Land Market Shrinks

Sales tumbled to the lowest since May 2016 in April



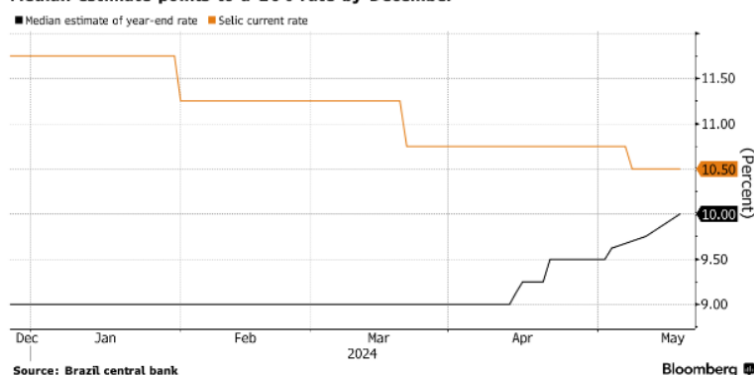
Brazil

Markets revised upwards their year-end policy rate expectations on a deteriorating inflation outlook. Inflation expectations in Brazil have been on a rise and some analysts now see it rising to 4%, higher than the Central Bank of Brazil's (BCB) target of 3%. Given this backdrop, the BCB reduced the pace of easing in its last policy meeting by cutting the policy rate (Selic) by 25bp (from 50bp each meeting) to 10.5%. The

markets too have scaled back their expectations on further cuts in the policy rate with the year-end estimate for Selic now at 10% in the most recent BCB weekly survey (vs. 9.75% in last week's survey). However, the fact that the directors nominated by the current administration had voted for a higher (50bp) cut in the last BCB policy meeting has drawn the attention of some analysts who are concerned about the bank's growing tolerance for higher inflation.

Analysts See Rate Cuts Ending Soon This Year

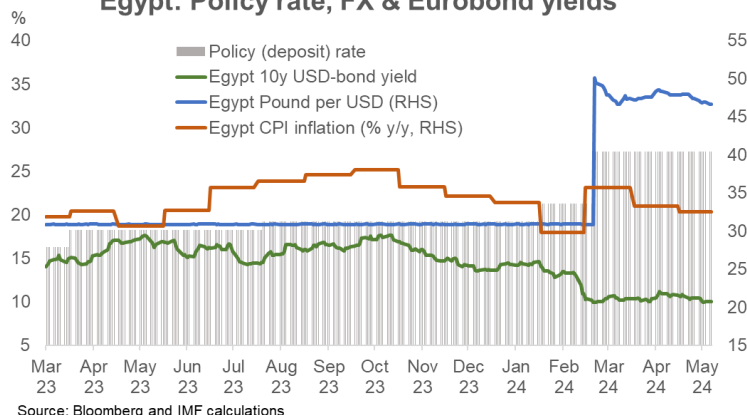
Median estimate points to a 10% rate by December



Egypt

The Egyptian pound was stable against the dollar today, ahead of the MPC meeting on May 23 when the central bank (CBE) will decide on the policy interest rate. After devaluing its currency by nearly 60% in March, Egypt has agreed on a \$35bn deal with the United Arab Emirates which helped the country secure a total of \$57bn in loans including support from the IMF and the European Union. Increased availability of foreign currency helped the pound remaining relatively stable against the

Egypt: Policy rate, FX & Eurobond yields





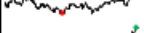
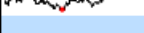


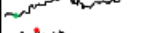
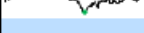





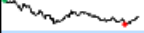



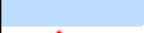




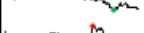


dollar (the currency gained 3.5% on the month). Analysts at Barclays have reportedly said that recent muted pound volatility versus the dollar confirms a “new closely managed currency peg with +/- 1 pound over an implicit central parity of EGP 48/\$”. Still, inflation was at 32.5%/y in April and is expected to remain above 20% by year-end, so that consensus expects the CBE to keep the benchmark rate unchanged at 27.25% at its May 23 MPC meeting. JP Morgan also expects the CBE to keep rates on hold at its MPC meeting in May, as inflation risks remain high. JP Morgan expects the first rate cut only in early 2025, as they forecast headline inflation declining to 22% by the end of 2024 and to be back to the CBE's 7% ($\pm 2\%$) target by early 2026.

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Global Financial Indicators

5/21/24 8:17 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		5310	0.1	1	7	27	11
Europe		5040	-0.7	-1	2	15	11
Japan		38947	-0.3	2	4	25	16
China		3676	-0.4	1	4	-7	7
Asia Ex Japan		73	-0.5	2	12	11	10
Emerging Markets		44	-0.4	2	10	12	9
Interest Rates			basis points				
US 10y Yield		4.43	-1.4	-1	-19	76	55
Germany 10y Yield		2.53	-0.3	-2	3	10	50
Japan 10y Yield		0.98	-0.1	3	13	58	37
UK 10y Yield		4.16	-1.3	-2	-7	16	62
Credit Spreads			basis points				
US Investment Grade		116	0.2	-3	-8	-54	-18
US High Yield		340	1.1	-8	-28	-157	-45
Exchange Rates			%				
USD/Majors		104.55	0.0	0	-2	1	3
EUR/USD		1.09	0.0	0	2	0	-2
USD/JPY		156.4	0.1	0	1	13	11
EM/USD		47.3	0.1	1	3	-6	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		82.3	-1.7	0	-5	14	8
Industrials Metals (index)		173	1.4	7	9	19	21
Agriculture (index)		61	-0.5	1	4	-5	-2
Implied Volatility			%				
VIX Index (% change in pp)		12.5	0.3	-1.0	-6.3	-4.4	0.0
Global FX Volatility		6.8	0.0	-0.2	-0.6	-1.9	-1.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		99	0.2	-3	-8	-60	-4
Italy		130	1.2	-5	-14	-55	-38
Portugal		64	1.6	0	-3	-16	0
Spain		77	1.0	-2	-5	-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: 5/21/2024 8:19 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	0.0	0.0	0	-3	-2		2.3	0.5	1	-3	-52	-26
Indonesia		15999	-0.1	0.6	1	-7	-4		6.9	-4.3	-3	2	51	46
India		83	0.0	0.2	0	-1	0		7.4	-1.0	-4	-11	26.2	22
Philippines		58	-0.6	-0.7	-1	-4	-5		5.6	-3.8	-2	-4	-31	-3
Thailand		36	-0.5	0.8	2	-5	-6		2.9	1.8	0	-5	17	16
Malaysia		4.70	-0.2	0.4	2	-3	-2		3.9	1.3	-3	-8	13	15
Argentina		889	-0.2	-0.5	-2	-74	-9		34.4	-160.7	-378	-1012	-6979	-5201
Brazil		5.09	0.2	0.7	1	-2	-5		11.8	-6.0	6	16	-23	135
Chile		888	0.4	4.1	7	-10	-1		5.1	1.0	-14	-20	-21	22
Colombia		3818	0.3	1.9	3	19	2		8.1	0.0	-22	-28	-72	44
Mexico		16.55	0.1	1.8	4	8	3		9.2	-0.6	-4	-24	72	71
Peru		3.7	0.1	-0.2	-1	-1	-1		7.1	0.1	-4	-47	-30	38
Uruguay		38	0.2	0.2	0	1	1		9.1	0.7	-4	12	-90	-42
Hungary		355	0.2	0.5	4	-2	-2		6.5	2.0	-2	-49	-146	76
Poland		3.92	0.0	0.7	3	6	0		5.1	1.3	-3	-22	-32	67
Romania		4.6	0.0	0.4	2	0	-2		6.5	0.9	-1	2	-33	34
Russia		90.4	0.6	1.0	4	-11	-1							
South Africa		18.1	0.3	1.3	6	6	1		9.6	-3.0	-21	-56	-52	49
Türkiye		32.19	0.1	0.3	1	-38	-8		27.3	-28.0	9	-107	1748	58
US (DXY; 5y UST)		105	0.0	-0.4	-2	1	3		4.45	-1.8	-1	-22	72	60

	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		3676	-0.4	1	4	-7	7		140	0	-3	-55	-18	
Indonesia		7186	-1.1	1	2	7	-1		92	-6	-5	-50	-4	
India		73953	-0.1	1	0	19	2		94	1	-9	-58	-22	
Philippines		6634	-0.7	0	3	0	3		81	-5	-2	-35	1	
Thailand		1371	-0.6	0	2	-10	-3		0	0	0	0	0	
Malaysia		1622	-0.3	1	4	14	12		78	-1	-6	-22	-7	
Argentina		1535512	4.2	12	29	353	65		1262	12	43	-1347	-651	
Brazil		127751	-0.3	0	2	15	-5		213	0	-4	-50	-2	
Chile		6710	0.8	0	5	19	8		112	-3	-4	-17	-13	
Colombia		1442	0.9	3	8	28	21		292	2	-14	-114	21	
Mexico		57393	-0.3	-1	3	6	0		288	-9	-31	-108	-46	
Peru		30708	1.9	4	11	42	18		141	1	-5	-38	-3	
Hungary		68113	0.0	-1	5	46	12		139	-6	-11	-94	-10	
Poland		88867	-0.6	1	7	37	13		93	-2	1	-41	-4	
Romania		17510	0.1	1	4	42	14		172	-6	-11	-81	-29	
South Africa		79742	-0.4	1	9	2	4		311	-12	-35	-150	3	
Türkiye		11022	2.6	8	14	145	48		277	4	-8	-349	-37	
EM total		44	-0.7	2	10	12	9		322	-3	34	-103	-23	

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

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