GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, MAY 23, 2025

LEAD EDITOR: SANJAY HAZARIKA

- **New tariff threat shocks markets** (link)
- **US long bond yield near highest level since the global financial crisis** (link)
- **Euro appreciates against the dollar as German GDP beats forecasts** (link)
- **Downgrades increase in US corporate bond market** (link)
- **Dominant market share of US equities could pose significant risks to global system** (link)
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New Tariff Threat Unsettles Markets

Quiet conditions in early trading were disturbed by a new threat from the US to impose a 50% tariff on the EU starting on June 1. Euro area equities reversed their initial gains and plunged deeply into negative territory, and US equity index futures were also sharply lower. The euro fell from 1.1370 to 1.1301 immediately following the news. The only positive development was a steep decline in US Treasury yields, a day after the rise of the US long bond yield to post global financial crisis highs had unnerved market participants. The long bond yield is now back below 5% and the 10-year Treasury yield is back below 4.5%. Bund yields also saw steep declines. With the trade war back in the spotlight, market conditions are likely to be difficult in the immediate future. Meanwhile, worries about inflation continue to simmer in the background, with Japan the latest country to report higher than expected numbers.

Key Global Financial Indicators

Last updated: 5/23/25 8:19 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5842	0.0	-1	9	11	-1
Eurostoxx 50		5279	-2.7	-3	4	5	8
Nikkei 225		37160	0.5	-2	4	-4	-7
MSCI EM		46	-0.3	-1	7	7	10
Yields and Spreads					bps		
US 10y Yield		4.47	-5.9	-1	9	-1	-10
Germany 10y Yield		2.56	-8.0	-3	7	-3	20
EMBIG Sovereign Spread		330	9	-2	-34	-37	5
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		45.6	0.1	0	1	-3	6
Dollar index, (+) = $ appreciation		99.5	-0.4	-2	0	-5	-8
Brent Crude Oil ($/barrel)		63.5	-1.4	-3	-4	-22	-15
VIX Index (%, change in pp)		24.3	4.0	7	-4	12	7

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

Mature Markets

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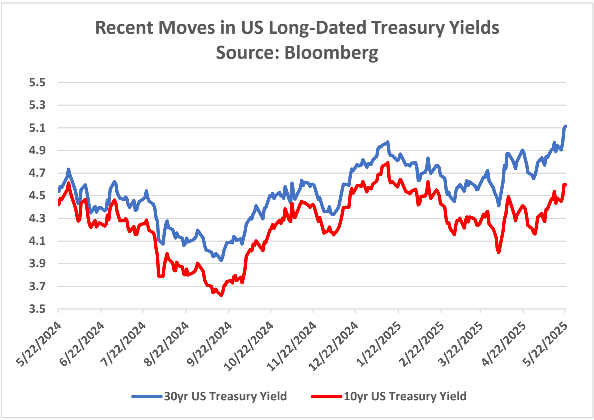
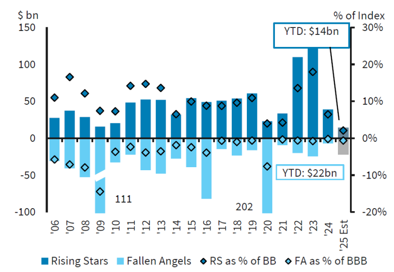
United States

The latest threat of a 50% tariff on the EU starting on June 1 caused US Treasury yields to plunge this morning, with the 10-year yield is back below 4.5% to 4.48%. US equity index future are also down. Yesterday, **the yield on the US long bond hit 5.15% intra-day, near its highest level since the global financial crisis.** Government bond yield curves in advanced economies have steepened significantly in recent weeks on worries about tariffs, inflation, and fiscal concerns more broadly. However, the moves in the US (and Japan) have been especially notable. The passage of the new tax package by the US House of Representatives highlights the fiscal challenge facing the US, with its provisions expected to greatly expand the budget deficit. There is widespread talk of so-called "bond vigilantes" initiating a buyers' strike for US Treasuries, which could trigger a major bout of volatility in the global financial system. However, some analysts are more optimistic, pointing out that short term yields remain well within recent ranges. In their view, real doubts about the US fiscal position would cause a much broader selloff across the yield curve, affecting shorter maturities as well as longer ones.



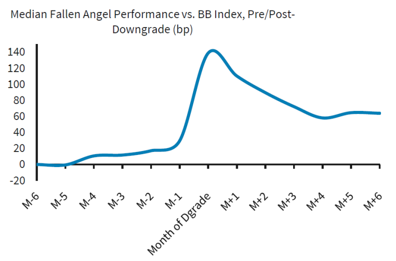
Downgrades in the US corporate bond markets are on the rise in the midst of heightened economic uncertainty. Fallen angels, or investment grade (IG) companies downgraded to high yield (HY), are leading rising stars (HY companies upgraded to IG) for the first time in many years, with $25 bn of fallen angels so far in 2025 and just $14 bn of rising stars. Prominent fallen angels this year include Nissan and the chemical producer Celanese. Morgan Stanley notes that fallen angels perform worst in the month leading up to the downgrade and tend to outperform after the downgrade occurs. The bank has upgraded its forecast for fallen angels in 2025 to $60–80 bn from $40–60 bn, as it has identified a number of IG companies at risk of downgrades to HY status. The commercial real estate sector is one key area of weakness due to the problems with office properties. Industrial companies with exposure to tariffs are also seen as especially vulnerable.

FIGURE 1. **Year-to-date, there have been $22bn of fallen angels and $14bn of rising stars**



Source: Bloomberg, Barclays Research

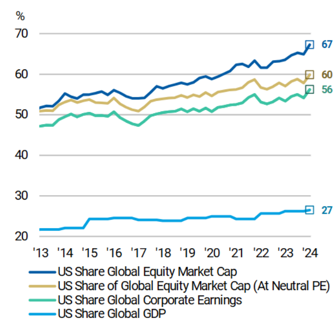
FIGURE 2. **Fallen angels tend to underperform the most in the month prior to downgrade**



Source: Bloomberg, Barclays Research

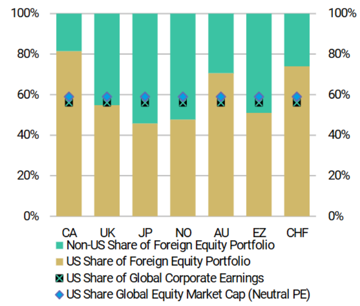
US equity markets dominate the global market share, making the risk of a significant selloff potentially destabilizing for the global financial system. US stocks represent 67% of global market capitalization, and 56% of global corporate earnings, even though the US share of global GDP is a relatively modest 27%, according to research by Morgan Stanley. Furthermore, US equities are a significant part of the foreign holdings of investors in many other countries. A rapid decline in US equity markets could have major negative implications for risk assets more broadly. Investors are worried about the impact of tariffs and the rise in the budget deficit that could be caused by the new tax package currently under discussion in Congress.

Exhibit 1: US share of global equity market cap, corporate earnings, and GDP



Source: Haver Analytics, Bloomberg, MSCI, Morgan Stanley Research

Exhibit 2: Exposure to US in foreign equity portfolios by country

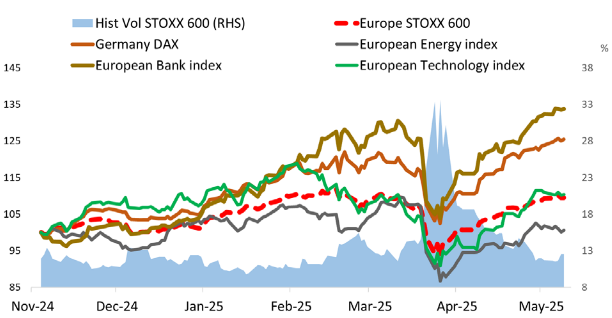


Source: Haver Analytics, Bloomberg, MSCI, Morgan Stanley Research

Europe

European equities plunged on the news of new tariff threats from the US. Earlier, the banking sector was buoyed by news that the **EU has delayed the application of the revised Basel III capital requirements for banks' trading businesses** (Fundamental Review of the Trading Book) to 2027, reportedly amid concerns of possible competitive disadvantages for European lenders vis-a-vis US peers. The DAX initially rallied after **today's final 1Q GPD data showed the German economy growing at 0.4% q/q as opposed to only 0.2% q/q in the flash estimates**. The gains evaporated on the tariff news.

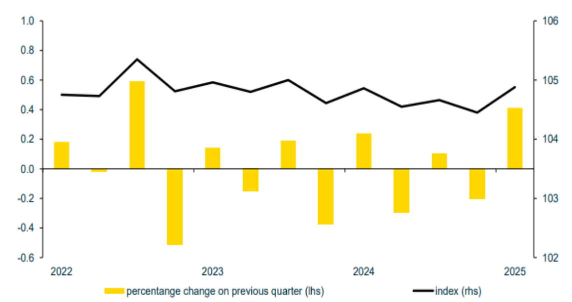
European Stocks (Oct 2024= 100)



Source: Bloomberg and IMF calculations

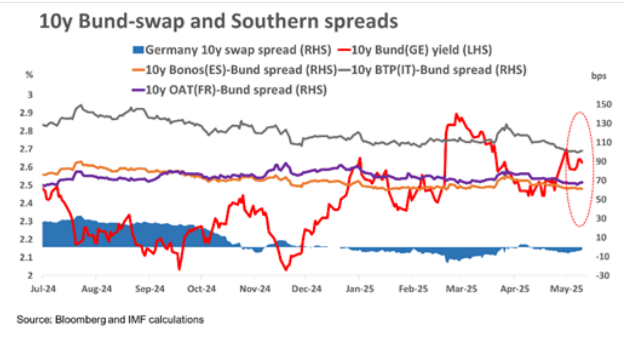
Chart 1 - German real GDP rising stronger in Q1

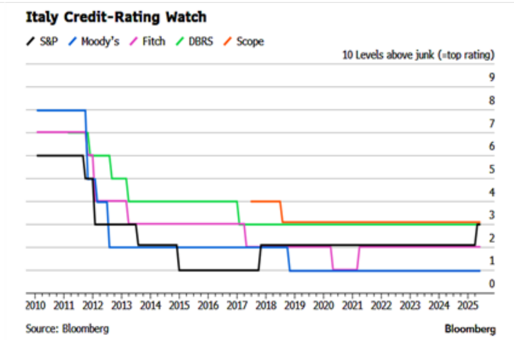
Real GDP, seasonally adjusted quarterly figures, 2020=100 and change on quarter in percent



Source: Destatis, Commerzbank Research

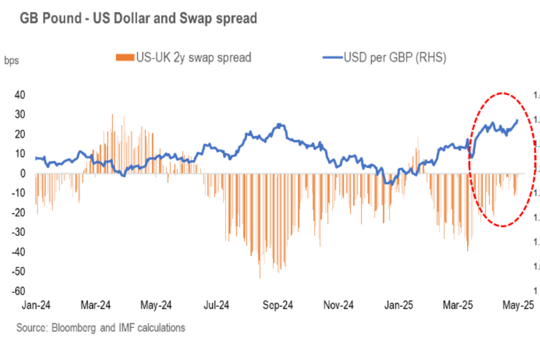
European government bond (EGB) yields were sharply lower across tenors this morning on the tariff news, with the two-year bund falling 10 bps to 1.72% and the 10-year yield falling 8 bps to 2.56%. This comes after a few days of rising rates. Deutsche Bank sees the recent rise of long-term yields reflecting structural shifts in investor expectations, which are spilling over from the US into Europe. Credit Agricole expects European spreads to bunds to continue to narrow. ING emphasizes that disinflation and a strong euro will likely result into further ECB easing, which should limit upward pressure on EGBs' yields. HSBC also sees strong demand absorbing increased EGB supply, with fiscal packages like Germany's €500bn infrastructure fund seen as modestly supportive to growth but not inflationary.

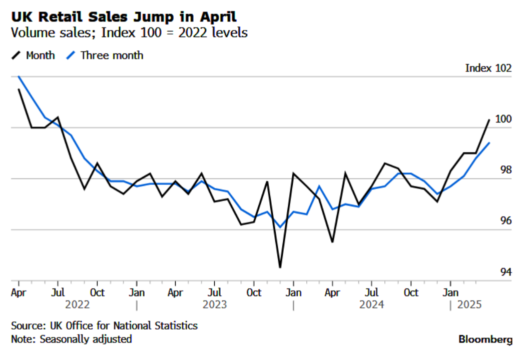




United Kingdom

The pound strengthened (0.5%) **this morning against a globally weaker dollar,** trading at 1.3489 with **gilt yields lower on the tariff news.** UK stocks also fell on the tariff news. Meanwhile, retail sales grew by 5%y/y (1.2%m/m) in April, while consensus expected a more contained 4.5%y/y (0.3%m/m) rebound from March (1.9%y/y, 0.1%m/m). Analyst ay Bloomberg see consumers' behavior in the next 6–9 months having a very significant impact on the economy and on how quickly the Bank of England (BoE) may cut interest rates, noting that, despite fears of recession emerged at the beginning of the year, UK growth has so far exceeded expectations printing at 1.3%y/y (0.7%q/q) in 1Q 2025. Money market kept wagers of BoE's future rate cuts broadly unchanged after today's data, pricing-in –38bps of easing by December (against -40bps yesterday).





Japan

Japan's key inflation gauge accelerated to the fastest pace in more than two years, with soaring rice prices exacerbating Prime Minister Ishiba's troubles. National core CPI inflation (excl. fresh food) climbed to 3.5% y/y (March: 3.2%; consensus: 3.4%), while headline CPI held steady at 3.6% (consensus: 3.5%). Energy prices jumped 9.3% following the March phaseout of government subsidies for gas and electricity, while the cost of rice jumped 98.4%, the most in data going back to 1971. **On a more positive note, JGB yields fell sharply in late trading.** Today, 10y benchmark yields dropped 3.5 bps to 1.53%, while 30y yields fell 12.8 bps to 3.04%, as the 10y-30y spread fell back to 151 bps from 160 bps yesterday. At a G7 meeting overnight, Bank of Japan Governor Ueda refrained from commenting on "short-term moves in bond yields", suggesting his preference to be patient despite some bond market participants calling for central bank intervention. The Yen strengthened (+0.6%) to $/1.4317, after President Trump reportedly initiated a phone call with Ishiba and discussed tariffs in general terms. Ishiba said he conveyed his hope that an upcoming meeting between top trade negotiator Akazawa and his US counterparts will be constructive.

Emerging Markets back to top

EMEA equities were trading mostly higher while currencies were trading mixed. In CEE, equities in Poland were underperforming (-0.4%) in early morning trade, while those in Hungary were outperforming (+1.0%). The Central Bank of Egypt cut by 100 bps to 24% versus the market forecast of a 200 bps cut, citing worries about inflation. **Asian currencies broadly appreciated (EM Asia: +0.5%) against the US dollar amid still-weak sentiment on US assets.** The Korean won rebounded sharply (+1.1%) from Thursday's drop, while Malaysian ringgit (+1.0%) reaches a two-week high. Asian equity markets made modest gains. **Equity markets in Latin America joinned the global selloff yesterday.** Most currencies held their own against the dollar, but the Brazilian real was the worst performer in the region (-1.1%) as the government's revenue and expenditure report appears to have disappointed markets.

Emerging Market Currencies

The US dollar's poor performance has dampened expectations of FX volatility over the next year. The US administration's introduction of tariffs on April 2 spiked volatility across major markets. Since then, delays in tariff rates to July 9 (for most nations) and August 12 (for China) appears to have soothed risk markets enough for the S&P 500 to recover from its steep year-to-date losses. The implied volatility of FX markets has also fallen from peak levels over the near-term. This could be related to the US dollar's broad-based weakening against other currencies rather than pricing an outcome where delays on tariffs rates are extended. The former case would add another layer to investors chipping away from the theme of US exceptionalism.

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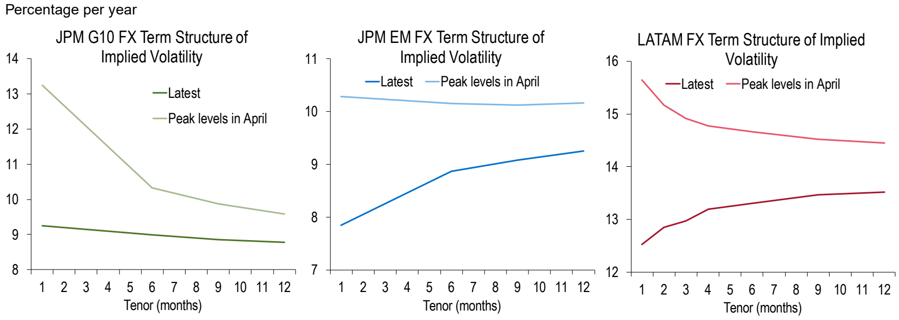
Percentage per year



Source: Bloomberg, J.P. Morgan, IMF Staff Analysis

China

The Chinese yuan continued to appreciate, tracking most Asian peers against a weaker US dollar. Onshore CNY (+0.2%) and offshore CNH (+0.2%) both appreciated, despite a weaker fixing at 7.1919 versus 7.1903 on Thursday. This was the ninth consecutive fixing on a 7.19 handle, indicating the PBOC may be comfortable with a stronger yuan. However, analysts also expect a slower appreciation path for yuan than Asian peers, given abundant onshore liquidity and lower short-term rates. The PBOC has injected excess liquidity via reverse repos for six consecutive trading days—the longest streak since Lunar New

Year. The PBOC is also expected to continue to avoid a sudden tightening of onshore rates, especially during the tax payment season. Shanghai Securities News reported today that PBOC's net injections of liquidity via one-year medium-lending facility for a third month in May suggests a policy focus to stabilize growth and will help banks boost loan issuance.

Türkiye

Central Bank of Türkiye reiterates data driven policy outlook. Yesterday's release of the Central Bank of Türkiye's (CBT) inflation report showed that the forecast for inflation was unchanged at 24%y/y for year-end as well as for 2026 and 2027, with headline inflation at 12%y/y and 8%y/y, respectively. Governor Karahan reiterated the CBT's commitment to maintaining a tight monetary policy stance to ensure disinflation and price stability. During the Q&A session, the Governor noted that upside risks to inflation are being monitored and that any easing in policy could be delivered either via rate cuts or adjustments to macro-prudential policies. Decisions on which approach to adopt would remain data dependent. Analysts at Deutsche Bank expect the CBT to initiate a gradual easing cycle in July, with the policy rate being lowered to 37.5% by year-end from the current 46% level. This morning, the Turkish lira was trading at 39.02/$ and is around 9.4% weaker against the dollar YTD.

This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (Senior Financial Sector Expert), Benjamin Mosk (Senior Financial Sector Expert), Sonal Patel (Senior Financial Sector Expert-London Representative), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are John Caparusso (Senior Financial Sector Expert), Mustafa Oguz Caylan (Research Officer), Sally Chen (IMF Resident Representative in Hong Kong), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Senior Research Officer), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Silvia Ramirez (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), Hong Xiao (Economist), Lawrence Tang (Senior Economist), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Jing Zhao (Economic Analyst). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Tyler (Administrative Coordinator) are responsible for the word processing and production of this monitor.

Global Financial Indicators

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VIX Index (%, change in pp)		24.3	4.0	7	-4	12	7

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

Emerging Market Financial Indicators

Last updated: 5/23/2025 8:31 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		7.18	0.3	0.4	1.4	0.8	1.6		1.8	0	0	2	-55	6
Indonesia		16218	0.7	1.4	4.0	-1.4	-0.5		6.8	3	-4	-18	-7	-26
India		85	0.9	0.4	0.2	-2.3	0.5		6.8	-8	-3	11	-65	-59
Philippines		55	0.6	0.7	2.3	5.2	4.9		4.9	-5	-4	-11	-66	5
Thailand		33	0.9	2.6	3.2	12.6	5.6		2.0	0	1	3	-85	-31
Malaysia		4.23	1.0	1.5	3.8	11.2	5.7		3.6	-3	-2	-11	-33	-26
Argentina		1136	0.8	0.1	-3.0	-21.7	-9.3		29.9	-35	-58	-380	-379	71
Brazil		5.69	0.2	-0.5	0.3	-9.6	8.4		14.1	-5	-7	-43	274	-180
Chile		941	0.1	0.1	0.3	-3.4	5.9		5.6	5	6	9	-16	-6
Colombia		4175	0.0	0.6	2.9	-8.3	5.5		12.1	1	8	11	140	23
Mexico		19.31	0.0	0.8	1.7	-13.4	7.9		9.4	-3	-1	-8	-47	-95
Peru		3.7	0.5	0.8	1.1	2.2	2.7		6.6	0	16	-10	-54	-7
Uruguay		42	0.0	0.2	1.0	-7.7	5.0		9.4	-3	-4	-25	26	-25
Hungary		356	0.4	1.3	1.3	0.3	11.6		6.7	2	6	5	3	31
Poland		3.76	0.3	1.7	0.7	4.9	9.9		5.1	3	9	35	-40	-49
Romania		4.5	0.6	2.2	-1.3	3.2	7.8		7.5	-2	-73	14	91	18
Russia		79.7	0.2	1.7	4.2	15.0	42.5							
South Africa		17.9	0.4	0.6	4.0	3.0	5.0		10.8	5	6	-30	-96	32
Türkiye		39.03	-0.3	-0.5	-1.9	-17.5	-9.4		33.8	31	-101	-86	552	405
US (DXY; 5y UST)		99	-0.5	-1.6	-0.4	-5.4	-8.3		4.03	-6	-6	1	-50	-35

	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		3,882	-0.8	-0.2	2.5	7.8	-1.3		117	1	-5	-23	21
Indonesia		7,214	0.7	1.5	8.0	-0.1	1.9		105	-2	-21	12	14
India		81,721	1.0	-0.7	3.2	8.4	4.6		116	1	-13	23	30
Philippines		6,413	1.7	-0.8	2.3	-3.1	-1.8		85	-1	-18	2	6
Thailand		1,176	0.3	-1.6	1.5	-13.8	-16.0						
Malaysia		1,535	0.5	-2.3	1.7	-5.2	-6.5		83	-1	-14	6	13
Argentina		2,314,897	-0.2	0.7	3.4	52.9	-8.6		673	-10	-37	-728	36
Brazil		137,273	-0.4	-1.5	3.8	10.1	14.1		217	-7	-21	1	-30
Chile		8,368	-0.6	-0.5	5.6	23.4	24.7		117	-2	-14	4	4
Colombia		1,641	-0.5	-0.3	-0.1	16.7	19.0		339	-9	-51	37	13
Mexico		57,895	-1.1	-0.1	3.8	3.5	16.9		291	-6	-52	-1	-21
Peru		31,087	0.0	0.3	3.7	3.5	7.3		129	-3	-21	-19	-12
Hungary		94,814	-0.7	-2.3	4.4	38.8	19.5		158	-4	-21	17	3
Poland		98,174	-2.6	-4.8	-1.5	11.4	23.4		112	2	2	19	0
Romania		17,599	0.2	5.0	1.5	0.9	5.3		262	-37	-14	88	27
South Africa		93,065	-0.1	0.5	3.6	17.9	10.7		317	-2	-44	4	24
Türkiye		9,355	-1.3	-2.0	0.5	-13.3	-4.8		303	-4	-19	25	44
EM total		46	-0.5	-0.5	7.0	7.3	10.1		382	-2	-14	51	18

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

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