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Long Bond Weakness Returns After Disappointing JGB Auction

Long-dated sovereign bond yields are higher so far today following a disappointing auction of 40-year bonds in Japan. The auction experienced the weakest demand since July as investors remain concerned over fiscal pressures despite expectations for reduced issuance of longer maturities in the coming months. The yield on the 40-year bond rose 3bp on the day, but remains 19bp lower than where it ended last week. German and US 30-year bond yields had also rose somewhat overnight but are now each only about 1bp higher on the day. Equity markets moves in the US and Europe are somewhat muted as investors await a couple of important events later today. The Fed is scheduled to release its May minutes, and investors will also pay attention to demand for the auction of 5-year Treasuries. However, the most watched news today will likely be the release of NVIDIA's earnings. S&P futures are little changed ahead of the market open, while European equities are slightly lower so far this morning.

Key Global Financial Indicators

Last updated: 5/28/25 8:15 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5922	2.0	-1	7	12	1
Eurostoxx 50		5396	-0.4	-1	4	7	10
Nikkei 225		37722	0.0	1	5	-2	-5
MSCI EM		46	-0.2	-1	6	7	10
Yields and Spreads			bps				
US 10y Yield		4.44	0.0	-15	24	-11	-13
Germany 10y Yield		2.54	0.6	-11	2	-5	17
EMBIG Sovereign Spread		330	-1	5	-25	-41	5
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		45.7	0.1	0	1	-3	7
Dollar index, (+) = \$ appreciation		99.7	0.2	0	1	-5	-8
Brent Crude Oil (\$/barrel)		64.7	0.9	0	-2	-23	-13
VIX Index (% change in pp)		19.1	0.1	1	-6	6	2

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

Mature Markets

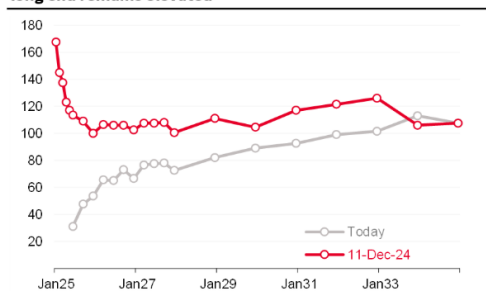
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United States

US equities rebounded sharply yesterday, but underlying trends point to a potential shift away from US markets. SocGen analysts highlight that global equity funding patterns suggest a gradual rotation from US to international equities. The term structure of synthetic equity funding costs—which reflect the price of

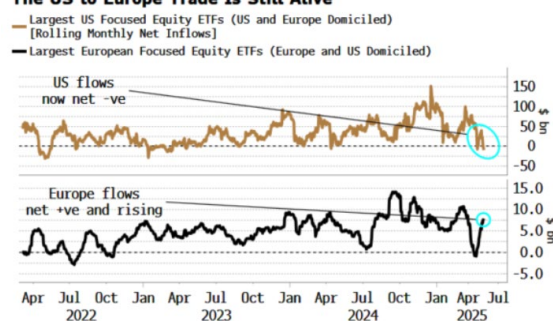
replicating equity exposure—has disinvested since late 2024, indicating lighter positioning in shorter maturities despite the rebound. They note that, while long-end funding costs remain elevated, few investors appear to be adding exposure to capture the steeper carry opportunity. Meanwhile, Bloomberg reports that net flows into US equity ETFs, which remained resilient through April's volatility, have turned negative, while European equity ETF flows rebounded strongly in early May and are now firmly positive.

The cost-of-funding term structure is now 'normal', but the long end remains elevated



Source: SG Cross Asset Research/Derivatives, Bloomberg

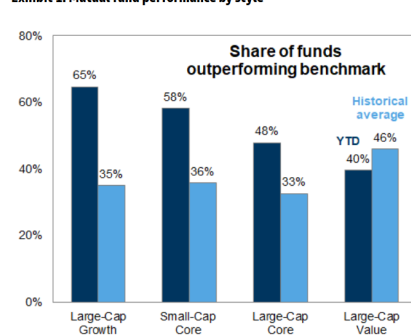
The US to Europe Trade Is Still Alive



Source: Bloomberg; Macrobond

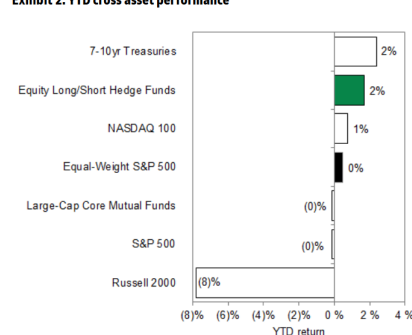
Asset managers maintain defensive positioning while delivering solid returns. Elevated uncertainty and market volatility year-to-date have led both mutual funds and hedge funds to adopt more cautious stances. The latest CFTC data show that asset managers broadly reduced long positions across the Treasury curve, reflecting risk aversion, while hedge funds increased short exposure—leaving room for potential short squeezes. In equities, Goldman Sachs analysis indicates that, since the beginning of the year, hedge funds have raised short positions and kept net leverage below average, while mutual funds have lifted cash allocations. Despite this bearish positioning, they note that mutual funds have outperformed benchmarks at an unusually high rate—particularly in large-cap growth—while hedge funds have delivered modest gains (+2%). This performance is partly attributed to tactical exposure to market-leading stocks.

Exhibit 1: Mutual fund performance by style



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 2: YTD cross asset performance



Source: FactSet, Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

Europe

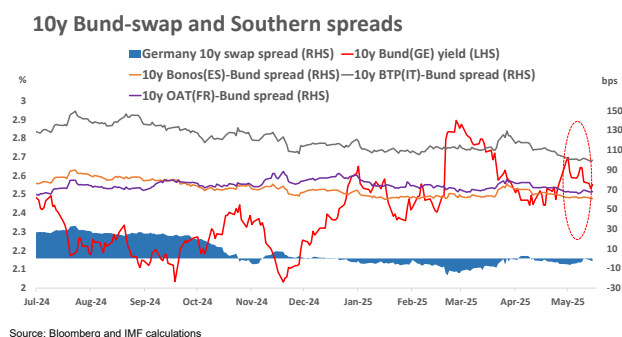
European equities edged lower this morning, mirroring US equity-index futures with Asian stocks also down overnight, as investor sentiment remains weak on the back of tariffs and fiscal concerns with long term government bond yields moving higher globally today. The Stoxx 600 was down by around 0.3% this morning, with losses across nearly all sectors. In Italy, however, the FTSE MIB gained +0.3% after Moody's lifted its outlook to positive (from neutral) for a number of firms including three large banks (Intesa, MPS and BPER).

The euro was fractionally higher against the dollar this morning, trading at \$1.336/€. Analysts at ING see 1.130 against the dollar as an anchor for the euro in the coming weeks subject to persisting upside risks, as they believe that markets are not yet ready to lower the US dollar risk premium despite yesterday's

positive surprise in US consumer confidence. ING warns, however, that if other European countries follow the weak May CPI figure by France in yesterday's data release (headline inflation printed at 0.6%y/y vs est. 0.9%), euro-denominated swaps could move to price-in an ECB policy rate lower than 1.75% by the year-end, which could weigh on the euro. Deutsche bank expects the euro to be under pressure in the near term, amid persisting threats of 50% US tariffs despite ongoing negotiations, which would add to a possible deflationary narrative after this week's data.

Today's ECB survey release showed that consumer inflation expectations have increased in April, as prices were seen rising by 3.1% over the next 12 months, up from 2.9% in March, the highest level since February 2024, although inflation expectations for the next three and five years remained unchanged at 2.5% and 2.1% respectively. **ECB Governing Council members offered mixed views**: Christodoulos Patsalides argued against reductions larger than an 25bp cut, unless recession risks intensify, while Robert Holzmann urged delaying possible further cuts until September and Philip Lane said that inflation will hover around 2% for the rest of the year in the Eurozone, with the ultimate impact of US tariffs price pressures determining monetary policy in the medium-term. Finally, Nagel said that it is too early to tell whether ECB will cut rates next month, stressing uncertainty surrounding the inflation forecast.

European government bond yields were marginally higher (by about 2bp) across tenors this morning. The 2y Bund yields were at 1.80% and the 10y yields at 2.55%, while the 30y Bund yields edged only fractionally higher to 3.01% with analysts at Commerzbank noting that European markets are unsure on the implications of latest news of lower ultra-long issuances planned in the UK and Japan.



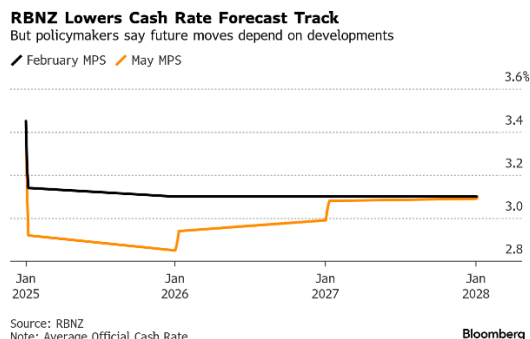
Sweden

The krona advanced this morning(+0.2% vs. the euro), while equities were fractionally lower (-0.1%) and government bond yields little changed after **today's data showed retail sales rising by more than expected in Sweden in April**. Sales grew by 0.9%m/m (vs. est. 0.2%), from 0.7%q/q in March, echoing the rise of consumer confidence index to 83.1pts in May from prior 81.8pts. The central bank (Riksbank) kept the policy rate unchanged at 2.25% on May 8 citing the need of a cautious approach given elevated uncertainty on the back of ongoing tariffs negotiations. Analysts surveyed by Bloomberg in May expect the Riksbank to lower the rate to 2% by the end of 2025, while money markets have partly scaled back expectations of further rate cuts after today's data by pricing-in 34bp of easing by the November MPC meeting, against 38bps priced-in last Friday. The krona has appreciated by 4.3% against the dollar QtD.

New Zealand

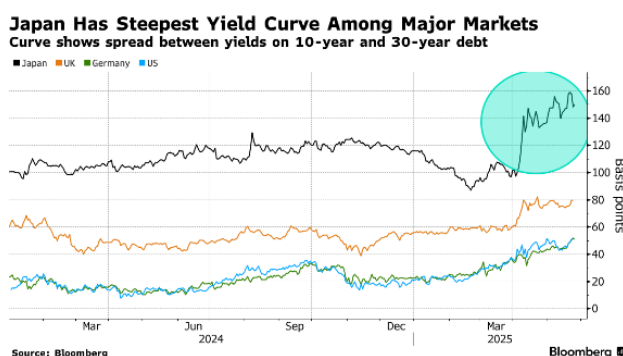
The Reserve Bank of New Zealand (RBNZ) cut interest rates for the sixth consecutive meeting, lowering the Official Cash Rate (OCR) by 25 bp to 3.25%, as expected. The RBNZ suggested that the benchmark rate is now close to its neutral level, where it neither curbs nor stimulates economic activity, but forecasted another rate cut this year. The RBNZ projects inflation to rise from 2.5% to 2.7% this year before slowing to 1.9% by early 2026; and annual GDP growth to be 1.5% in the year through March 2026, down from the 1.8% projected in February, but higher than the estimated -1.1% for the year through March 2025.

Economists believe that the degree of easing should be greater, as higher tariffs and increased uncertainty dampen the economy, and suggest that the projected OCR should be lower than the forward guidance of 2.92% by year-end, which is already below the 3.14% projected in the February policy statement. Today, the stock market declined (NZX50: -1.75%), while the New Zealand dollar appreciated against the dollar (+0.45%) on optimistic expectations, such as improving employment growth.



Japan

The 40y JGB auction saw the weakest demand since July, with the bid-to-cover ratio falling to 2.21 from 2.92 in the previous sale in March, pushing long-term yields up again (30y: +5bp to 2.89%; 40y: +3bp to 3.34%). Analysts attributed the weak bidding to investors' limited risk appetite given high market volatility amid concerns over fiscal sustainability, and the expectation that the issuance scale-down will not occur for another month. However, the market speculates that the auction's poor performance might prompt the government to adjust its issuance of super-long bonds after the Ministry of Finance receives inputs from market participants and the Bank of Japan, the largest JGB holder at 52% of total JGB outstanding at 2024 year-end. Today, the yen appreciated against the dollar (+0.2%), while the stock market was unchanged. BofA analysts raised their year-end forecast for the Nikkei index to 40,000 from 38,500, citing accelerating corporate reforms.



Emerging Markets

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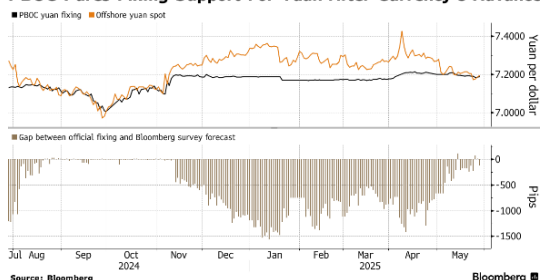
EM Asian currencies mostly strengthened against the dollar, led by the Korean won (+0.4%) and the Thai baht (+0.3%). The Indian rupee continued to depreciate (-0.1%) against the dollar on selling of large-cap stocks and month-end dollar demand from importers. EM Asian stock markets had mixed performance, with Korea gaining (Kospi: +1.3%) and Hong Kong SAR declining (HSI: -0.5%). **EMEA markets were mixed** with contacts focused on policy meeting minutes from the US Federal Reserve due later today. In CEE, equities were mixed with Poland (+0.3%) outperforming and Czechia (-0.2%) seeing the largest declines, while CEE currencies were trading in a tight range against the euro. The South African rand strengthened against the dollar (+0.3%) ahead of the MPC meeting tomorrow where the central bank is

expected to lower its policy rate by 25 bp to 7.25%. The Turkish lira weakened against the dollar (-0.2%) with Bloomberg pointing to escalating tensions between the government and opposition after authorities opened an investigation into Istanbul's interim mayor. **Latin American currencies mostly appreciated, and equities were mixed Tuesday.** The Colombian peso (+0.9%) and Brazilian real (+0.5%) led the regional currency advance while the Argentine peso (-1.1%) bucked the trend. Equities in Brazil (+1.0%) and Mexico (+0.2%) outperformed but the rest of the region declined. On the monetary policy front, Uruguay held its monetary policy rate at 9.25% as expected.

China

The Shanghai Futures Exchange, the largest raw material bourse in China, plans to relax commodity trading rules for international investors, including allowing foreign exchange as collateral for yuan-denominated trades and easing participation in 18 domestic contracts. The changes involve overhauling rules on market access, trading, settlement, risk control, and delivery. This move is seen as a significant strategy to increase influence over global commodities pricing, enhance the yuan's appeal as an international currency, and develop Shanghai as an international financial center. Today, the stock market was little changed (CSI 300: -0.1%), while the yuan appreciated slightly (+0.1%) against the dollar despite the PBOC setting a weaker fixing for the second session at 7.1894 per dollar. The market views this weaker fixing as the PBOC's attempt to guard against the risk of rapid appreciation given recent dollar weakness, which could weigh on exports amid tariff concerns. Other efforts to slow the yuan's strengthening include the PBOC pausing yuan bill sales in Hong Kong SAR for a third month, and state-owned banks reportedly buying dollars in the onshore market recently.

PBOC Pares Fixing Support For Yuan After Currency's Advance



Brazil

Brazilian assets rallied following a lower-than-expected inflation print. In early May, inflation fell to 5.40% y/y (from 5.49%) which was lower than all estimates in a Bloomberg survey. Month-over-month inflation fell to 0.36% (from 0.43%) and was also lower than all estimates. Assets rallied as investors anticipate the end of the central bank's rate hiking campaign, during which the key Selic rate has risen by 425 bp since September. The real (+0.5%) appreciated against the dollar, equities (+1.0%) rallied, and sovereign yields fell across the curve in range of 5 to 19 bp.

Brazil Inflation Simmers Above Target in Early May
Annual inflation at 5.4% was below all analyst forecasts

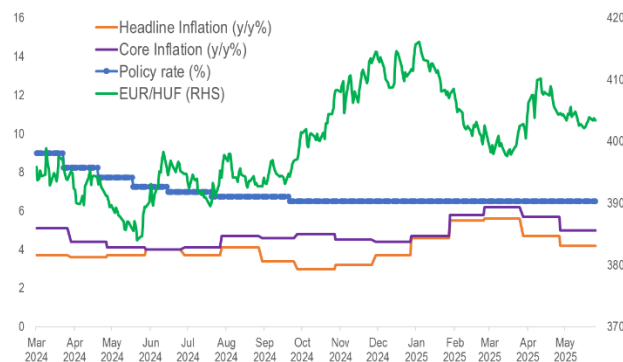


Hungary

The central bank of Hungary left its benchmark interest rate unchanged at 6.5%, as expected. The central bank left rates unchanged for the eight consecutive meeting. Market analysts note that the guidance was largely unchanged with the press release still including language that "maintaining tight monetary policy conditions is warranted." The forint was little changed after the decision trading around 403 against the euro, a level it has been hovering around for most of the month after reaching a 3-month low in April. ING

analysts see the hawkish messaging from the central bank as a supportive factor for the currency, and, while remaining more bearish in the medium term, the analysts see short term gains in the forint as possible. Markets are pricing in roughly 33bp of easing over the next six months, according to Bloomberg, and Goldman Sachs analysts expect the central bank of Hungary to resume a cautious easing cycle in Q3.

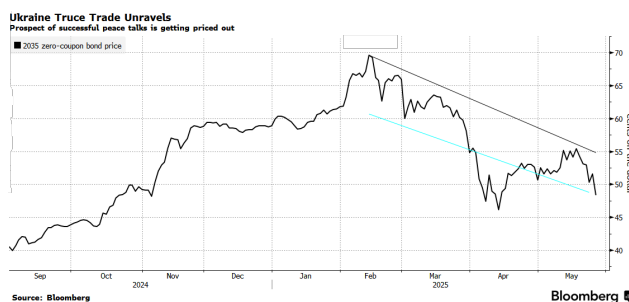
Hungary: Interest rate, Inflation and Currency



Source: Bloomberg and IMF calculations

Ukraine

Ukraine's dollar bonds decline as hope for a peace agreement wanes. Bloomberg reports that Ukraine's dollar bonds are underperforming emerging and frontier markets, with dollar bonds declining by over 10% so far this year. Notably, Ukraine's zero-coupon bonds due in 2035, linked to Ukraine's economic performance, have declined to around 50 cents on the dollar from roughly 70 cents in February. Bloomberg analysts attribute the decline to increasing skepticism that a ceasefire in the ongoing conflict will be brokered. The analysts highlight that Ukraine's dollar bonds outperformed emerging market debt following Ukraine's debt restructuring in August 2024, and continued to gain in the latter part of 2024 and the start of 2025 amid hopes for a ceasefire.












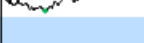
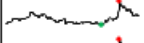










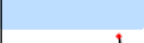
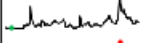
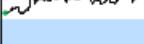
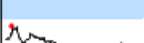
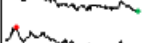

Source: Bloomberg

Bloomberg

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Global Financial Indicators









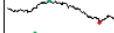
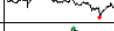









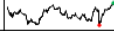



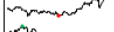
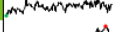
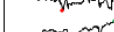


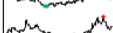


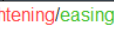
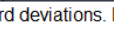


5/28/25 8:15 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		5,929	2.0	-0.2	7.2	11.7	1
Europe		5,396	-0.4	-1.1	4.4	7.3	10
Japan		37,722	0.0	1.1	5.3	-2.2	-5
China		3,836	-0.1	-2.0	1.6	6.2	-3
Asia Ex Japan		78	-0.2	-0.4	7.2	8.7	9
Emerging Markets		46	-0.2	-0.5	5.9	7.4	10
Interest Rates			basis points				
US 10y Yield		4.4	0	-15	24	-11	-13
Germany 10y Yield		2.5	1	-11	2	-5	17
Japan 10y Yield		1.5	5	-1	20	49	41
UK 10y Yield		4.7	2	-7	18	40	12
Credit Spreads			basis points				
US Investment Grade		136	1	-1	-11	20	16
US High Yield		369	0	-5	-51	27	41
Exchange Rates			%				
USD/Majors		99.7	0.2	-0.4	0.7	-4.7	-8
EUR/USD		1.13	-0.1	-0.2	-0.9	4.2	9
USD/JPY		144.5	0.1	0.5	1.7	-8.1	-8
EM/USD		45.7	0.1	0.2	1.0	-3.2	7
Commodities			%				
Brent Crude Oil (\$/barrel)		64.7	0.9	-0.4	-0.2	-18.1	-12
Industrials Metals (index)		143.1	-0.2	0.5	-0.8	-14.5	2
Agriculture (index)		57.1	-0.2	-0.4	-3.3	-8.9	0
Gold (\$/ounce)		3312.0	0.3	-0.1	-1.0	40.3	26
Bitcoin (\$/coin)		108971.2	-0.6	0.7	15.3	59.7	16
Implied Volatility			%				
VIX Index (%, change in pp)		19.1	0.1	1.0	-6.1	6.2	1.7
Global FX Volatility		8.9	0.0	0.1	-0.5	2.2	-0.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		73	-1	-1	-11	-28	-12
Italy		98	-1	-2	-13	-33	-18
France		67	0	1	-5	20	-16
Spain		60	0	-2	-6	-15	-9

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

Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 5/28/2025 8:16 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		7.19	0.0	0.1	1.3	0.7	1.5		1.8	1	1	1	-54	6
Indonesia		16296	-0.1	0.6	3.4	-1.3	-1.0		6.7	1	-1	-11	-12	-29
India		85	0.0	0.3	-0.4	-2.6	0.3		6.7	-4	-6	0	-65	-62
Philippines		55	0.1	0.3	1.7	4.4	4.5		4.9	-1	-1	-7	-66	7
Thailand		33	0.3	0.1	2.1	12.0	5.2		2.0	-1	-2	-1	-88	-35
Malaysia		4.22	0.3	1.1	3.3	11.0	5.9		3.6	3	-1	-6	-31	-23
Argentina		1156	-1.1	-1.1	1.8	-22.7	-10.8		29.2	10	-49	-358	-588	7
Brazil		5.65	-0.2	-0.1	0.1	-8.7	9.2		14.0	-14	-10	-24	266	-197
Chile		937	0.3	0.7	0.7	-3.9	6.3		5.6	0	4	10	-17	-7
Colombia		4114	0.9	1.3	2.5	-5.9	7.1		12.1	-4	12	21	121	26
Mexico		19.29	-0.1	0.4	1.5	-12.9	8.0		9.4	-5	1	7	-49	-96
Peru		3.6	0.5	1.3	0.7	2.9	3.2		6.5	0	-2	-10	-57	-14
Uruguay		42	0.0	0.1	1.2	-7.3	5.1		9.4	1	-5	-25	24	-26
Hungary		356	0.0	-0.2	-0.6	-0.6	11.6		6.7	-1	0	12	-24	27
Poland		3.75	0.0	-0.2	-0.3	4.5	10.2		5.1	-1	2	28	-53	-49
Romania		4.5	0.0	0.2	-2.4	2.6	7.6		7.4	2	-13	9	78	11
Russia		79.6	1.0	0.2	3.8	11.3	42.6							
South Africa		17.9	0.2	0.2	3.4	2.0	5.2		10.7	-6	-2	-13	-127	24
Türkiye		39.07	-0.2	-0.5	-1.6	-17.5	-9.5		33.7	-35	6	-124	518	397
US (DXY; 5y UST)		100	0.2	-0.4	0.7	-4.7	-8.1		4.03	-1	-13	22	-57	-35

	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		3,836	-0.1	-2.0	1.6	6.2	-2.5		118	2	-6	-22	22	
Indonesia		7,176	-0.3	0.5	5.3	2.9	1.4		103	-1	-18	9	12	
India		81,312	-0.3	-0.3	1.3	9.1	4.1		111	-4	-15	21	25	
Philippines		6,426	0.6	0.8	2.8	0.2	-1.6		84	4	-14	1	5	
Thailand		1,161	-0.2	-1.6	-0.9	-14.0	-17.1							
Malaysia		1,523	-0.2	-1.4	0.5	-5.1	-7.2		82	0	-11	4	12	
Argentina		2,355,098	-0.7	-1.0	8.1	49.5	-7.0		675	5	-17	-776	38	
Brazil		139,541	1.0	-0.4	3.4	12.7	16.0		220	0	-6	8	-27	
Chile		8,352	-0.5	-0.8	4.6	23.6	24.5		118	2	-13	2	5	
Colombia		1,641	-0.7	-0.5	1.4	16.5	18.9		336	-5	-41	24	10	
Mexico		58,594	0.2	0.5	2.8	6.2	18.3		297	8	-36	-2	-15	
Peru		31,341	0.0	0.6	3.5	1.9	8.2		128	-1	-19	-26	-13	
Hungary		96,873	0.9	1.1	4.2	41.3	22.1		159	2	-22	17	4	
Poland		103,938	0.9	2.3	3.4	19.5	30.6		113	4	-3	20	1	
Romania		17,975	0.8	4.3	3.2	0.2	7.5		262	13	-16	85	27	
South Africa		94,137	0.4	0.8	3.8	19.8	11.9		319	8	-28	1	26	
Türkiye		9,198	-0.2	-2.1	-1.2	-13.9	-6.4		308	10	-31	32	49	
EM total		46	-0.2	-0.5	5.9	7.4	10.3		383	6	-6	47	18	

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

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