



- Markets saw historic losses in April ([link](#))
- EU to ban Russian oil imports by end of 2022 ([link](#))
- ECB rate hike expected in July ([link](#))
- India hikes policy rate in surprise move ([link](#))
- Strong demand pushes US T-Bill yields lower ([link](#))
- US credit market grows to \$17 trillion ([link](#))

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## Markets cautious ahead of Fed rate hike

All eyes are on the US Federal Reserve as markets brace for a 50 bps rate hike, the first time since the year 2000 that the Fed has raised its policy rate by more than 25 bps. The focus will be on the Fed's guidance on future policy moves, with markets predicting 50 bps hikes at each of the three next Fed meetings. Fed Chair Powell's press conference is likely to attract even more attention than usual, and he is likely to be asked if a 75 bps hike could be possible at some point. US equity index futures were higher in pre-market trading, while European stocks were mostly lower as the EU outlined a new round of sanctions against Russia. US Treasury yields held steady. Central banks around the world are grappling with inflation, with India delivering a surprise off-schedule rate hike and Iceland raising its policy rate by 100 bps, its largest move since the 2008 financial crisis. A key ECB official warned that inflation has become a serious problem and that a rate hike could come as early as July. Meanwhile, the Reserve Bank of New Zealand warned of the risk of a housing market correction.

Key Global Financial Indicators

Last updated: 5/4/22 7:39 AM	Level		Change from Market Close				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities			%				%	
S&P 500		4175	0.5	0	-9	0	-12	-1
Eurostoxx 50		3753	-0.2	0	-5	-4	-13	-6
Nikkei 225		26819	-0.1	-1	-3	-7	-7	1
MSCI EM		43	0.7	4	-9	-20	-13	-10
Yields and Spreads			bps					
US 10y Yield		2.96	-1.5	12	56	136	145	96
Germany 10y Yield		0.97	0.9	17	47	121	115	75
EMBIG Sovereign Spread		444	5	11	45	104	77	31
FX / Commodities / Volatility			%					
EM FX vs. USD, (+) = appreciation		52.4	0.2	1	-2	-8	0	-1
Dollar index, (+) = \$ appreciation		103.3	-0.1	0	4	13	8	7
Brent Crude Oil (\$/barrel)		109.1	3.9	4	1	58	40	13
VIX Index (% change in pp)		28.9	-0.3	-3	10	9	12	-2

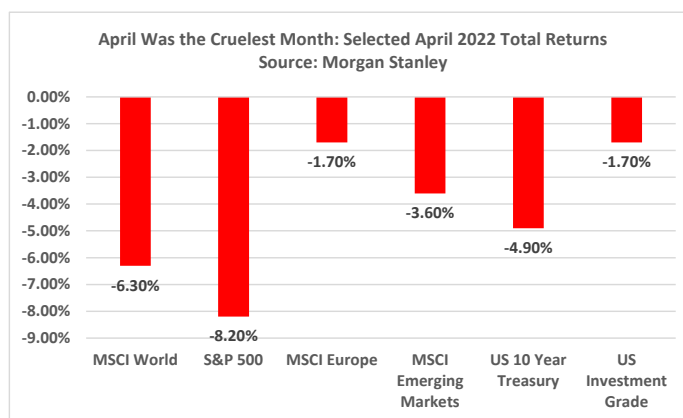
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

## Mature Markets

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### United States

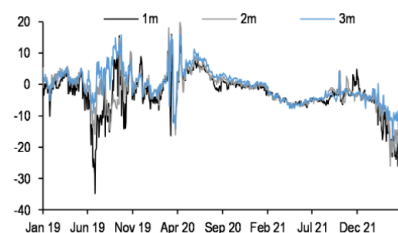
**US markets suffered their worst monthly return in two years in April, with other key markets also taking major losses.** The US Treasury market was especially volatile, with interest rates surging over the course of the month. The 10-year yield was up 60 bps and the two-year yield was up 38 bps. The five-year yield shot up by 50 bps. In addition, real yields in the US broke through into positive territory, with the 10-year Treasury Inflation Protected Security (TIPS) yield rising above zero for the first time since March 2020. In general, US markets underperformed their global peers, partially unwinding relative gains over the past year. Mixed corporate earnings, fears about inflation and the prospect of an aggressive Fed all weighed on sentiment. The S&P 500 suffered its worst April in over half a century and credit spreads for both investment grade and high yield corporate bonds ballooned as investors headed for the exits. However, the VIX, although elevated, remained below the level seen in February when the invasion of Ukraine began.



**US Treasury Bills are very expensive relative to other money market instruments, with their spread to overnight index swaps (OIS) at its most negative level since mid-2019.** The Fed is expected to announce a new level for its reverse repo rate (RRP) of 0.80% at its meeting later today, and the Interest on Excess Reserves (IOER) rate is expected to be raised to 0.90%. However, most T-Bills with maturities of three months or less are already trading below the expected RRP rate of 0.80%. The demand for T-Bills has been very strong because investors who are not banks, money market funds (MMFs) or Government Sponsored Enterprises (GSEs) do not have access to the Fed's reverse repo facility and have few ultra-safe alternative vehicles to park their short term cash. These include state governments, corporations, and longer maturity bond funds, among others. A sharp reduction in the supply of T-Bills has also worked to push yields lower.

**Exhibit 5: T-bill yields are now trading 20-30bp through OIS and are at their most negative level since mid-2019**

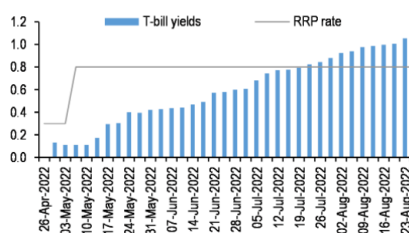
T-bill yields versus OIS; bp



Source: J.P. Morgan

**Exhibit 6: Most T-bills inside of three months are all already trading below the expected RRP of 0.80% after the May FOMC meeting**

T-bill yields versus RRP; %

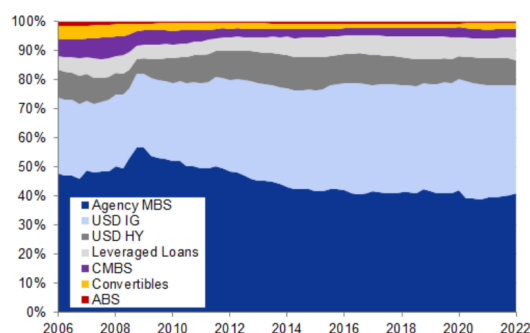


Source: J.P. Morgan

**The US bond market excluding Treasuries has grown to \$17 tn.** The market is dominated by agency mortgage-backed securities (MBS) and corporate bonds. The agency MBS market was the largest bond sector in the world going into the global financial crisis (GFC), when it accounted for nearly 60% of the US market, and it still accounts for 41% of the US non-Treasury bond market. The asset backed security (ABS) sector is down to a small fraction of the market compared to pre-GFC levels, as securities backed by cash flows from home equity loans and other products such as collateralized debt obligations fell out of fashion due to their poor performance during the GFC. The commercial mortgage-backed securities market has also shrunk significantly post-GFC.

**Exhibit 3 : The investable USD universe is dominated by USD IG corporate bonds and agency MBS**

Quarterly market value share of the USD market portfolio through time



Source: Bloomberg, S&P LCD, Goldman Sachs Global Investment Research

**Exhibit 4 : Combined, USD IG and agency MBS make up 78% of all non-Treasury USD fixed income assets**

Each asset class's market value (in billions) and market share as of March 31, 2022

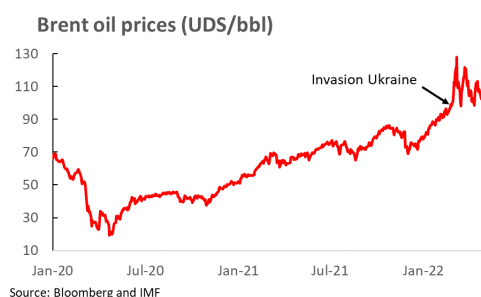
Asset Class	Market Value (bn)	Market Share
USD IG	\$6,465	37.2%
USD HY	\$1,496	8.6%
Leveraged Loans	\$1,357	7.8%
Convertibles	\$353	2.0%
Agency MBS	\$7,128	41.0%
ABS	\$81	0.5%
CMBS	\$508	2.9%
<b>Total</b>	<b>\$17,388</b>	<b>100.0%</b>

Source: Bloomberg, S&P LCD, Goldman Sachs Global Investment Research

## Euro area

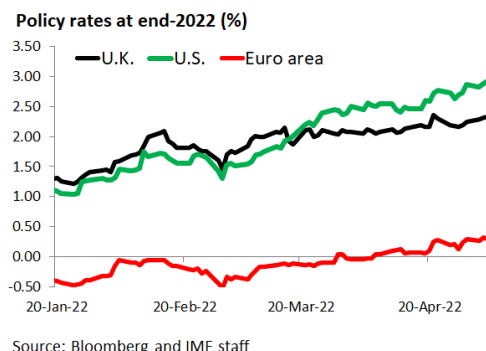
**Shares (-0.4%) edged lower as the EU is expected to approve a sixth round of sanctions against Russia later today.** The final euro area composite PMI for April was unrevised from its flash estimate of 55.8. Italian and Spanish composite PMIs both improved in April on an improvement in services. **The euro and 10-yr bund yields were little changed ahead of the Fed meeting.**

**Brent oil prices (+3% to \$108/bb) and natural gas prices (+6%) are higher after EC President von der Leyen said that the EU plans to ban Russian crude oil over the next six months and refined fuels by the end of 2022.** Sanctions would reportedly also include all services linked to the transportation of Russian oil including European vessels, financing, brokering, technical assistance, and insurance. According to press reports, Hungary, and Slovakia, would not enforce sanctions until the end of 2023. The EC is also proposing to cut off Sberbank from the SWIFT payment system.



**Expectations that the ECB will hike its depo rate 25 bps on July 21 continue to firm after ECB GC member Schnabel said that rhetoric is no longer enough, and that a rate hike in July is possible from today's perspective.** She added that the ECB will continue reinvesting maturing bonds in its asset holdings for an extended period after hiking rates but that it also makes sense to gradually reduce bond

portfolios at some point in the future. **Southern European spreads are little changed today but have settled at higher levels over the past week** (10-yr Italian spreads at 192 bps and 10-yr Greek bonds at 243 bps).



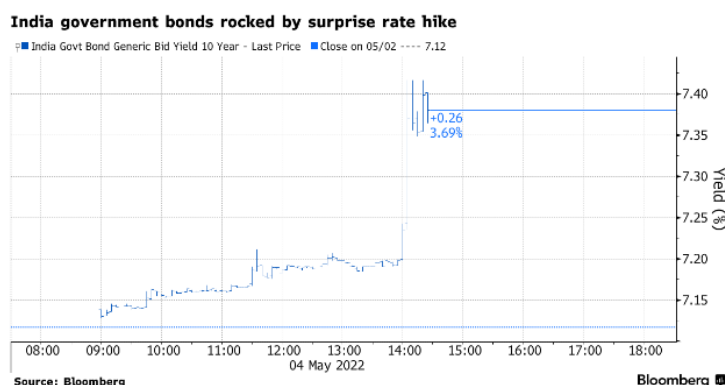
## Emerging Markets

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**EMEA equities were trending lower but currencies were generally stronger against the US dollar ahead of the FOMC meeting later today. Asian equities slipped -0.4% on net.** A few regional markets, including China were closed for holidays. In **Sri Lanka**, Finance Minister Sabry stated that the country is in talks for \$3–4bn of bridge financing but warned that it may take two years to recover from its crisis. **Latin American equities were mixed while most currencies appreciated.**

### India

**Reserve Bank of India (RBI) hiked its repo rate by 40 bps to 4.4% in a surprise off-schedule decision.** The bank also raised its Cash Reserve Ratio by 50 bps to 4.5%, effective May 21, 2022. Governor Das said the bank retains its focus on the withdrawal of monetary accommodation and anchoring inflation, according to Bloomberg. Mr. Das noted, however, that monetary policy is still accommodative and liquidity remains ample. Headline inflation in March rose to a 17-month high of 6.95%, riding above the RBI's 2%–6% target range for a third month. **Equities slumped -2.3%, Indian rupee appreciated +0.1%, 10-year yields firmed +25 bps.**



## Mexico

**Deputy Governor Heath warned of the limitations of price controls.** While not dismissing unconventional policies, he cautioned that such measures only work temporarily. The authorities are in discussions with major businesses to fix the prices of 24 essential items. While similar plans were implemented in the late 80s and early 90s with some success, many economists remain skeptical about a 21st-century version, given that the economy is more open. Driven by food and gasoline, inflation reached 7.7% yoy in April, with core inflation hitting 7.2%. High inflation has prompted numerous interest rate hikes over the last year.

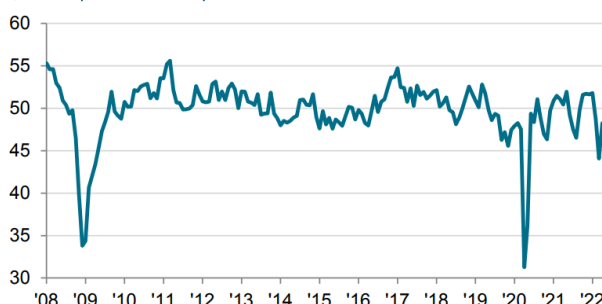


## Russia

**Russia's April manufacturing PMI was better than expected but remained in contractionary territory.** The S&P Global Russia Manufacturing PMI increased to 48.2 in April (vs. the consensus forecast of 41.5) from 44.1. However, S&P analysts highlighted that operating conditions in the manufacturing sector continued to deteriorate as new orders and output were impacted by sanctions. The press release also notes that input costs were driven by unfavorable exchange rate movements and material shortages, with manufactures continuing to pass higher costs to clients. Lower production and higher costs led to lower employment. Output expectations remained subdued, with some firms seeing import-substitution opportunities. **Equities in Moscow (-2.3%) fell while the offshore Russian ruble strengthened (+1.7%) to 67.2 against the dollar, a level last seen in mid-2020.**

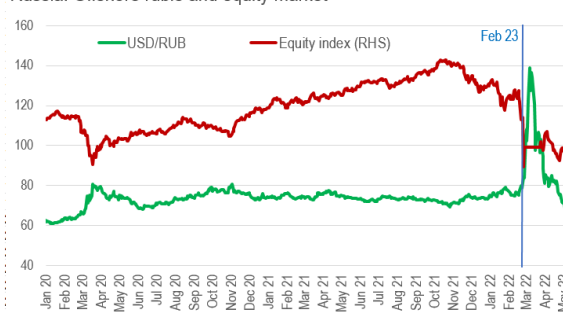
Russia Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global.  
Data were collected 11-25 April 2022.

Russia: Offshore ruble and equity market



Source: Bloomberg and IMF calculations

**The EU has proposed a complete ban on oil imports from Russia by the end of 2022, together with sanctions on additional Russian banks as well as Russian broadcasters, as part of the EU's sixth sanction package.** The proposed sanctions are yet to be formally approved and require unanimous support from all EU members. European Commission president Ursula von der Leyen said that the phaseout of Russian oil will occur in an orderly fashion that minimizes the impact on global market and allows alternative supplies to be secured. With pushback expected from some members, analysts see








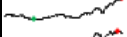
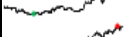


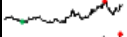
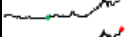

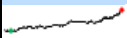
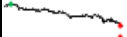
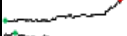




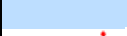



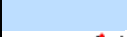


exemptions likely for some countries, such as Hungary and Slovenia, that are more heavily reliant on Russian oil imports. **It is also proposed that Sberbank and two other large Russian banks be sanctioned and excluded from the SWIFT payment system.**

**The cut-off of Russian gas to Poland is not expected to have a significant impact on the gas supplies of other Central and Eastern European countries, according to IIF analysts**, since gas flows via the Yamal pipeline has decreased over the past several months. Gas flows from Russia to Poland and Bulgaria ceased on April 27 after the countries refused to pay for natural gas imports from Russia in rubles. **Analysts also note that higher domestic natural gas production could be an important part of European efforts to reduce reliance on Russian oil and gas**, with domestic sources in Romania already capable of meeting roughly 75% of its consumption.

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## Global Financial Indicators

Last updated: 5/4/22 7:41 AM	Level		Change				YTD	Since 23-Feb-22
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
<b>Equities</b>					%		%	%
United States		4175	0.5	0	-9	0	-12	-1
Europe		3753	-0.2	0	-5	-4	-13	-6
Japan		26819	-0.1	-1	-3	-7	-7	1
China		4016	2.4	0	-6	-22	-19	-13
Asia Ex Japan		72	0.8	5	-8	-23	-13	-10
Emerging Markets		43	0.7	4	-9	-20	-13	-10
<b>Interest Rates</b>					basis points			
US 10y Yield		2.96	-1.5	12	56	136	145	96
Germany 10y Yield		0.97	0.9	17	47	121	115	75
Japan 10y Yield		0.23	0.0	-2	2	13	16	3
UK 10y Yield		1.97	1.1	16	42	117	100	49
<b>Credit Spreads</b>					basis points			
US Investment Grade		155	0.0	1	20	64	43	12
US High Yield		417	0.0	7	52	87	80	11
Europe IG		89	0.6	2	19	39	41	18
Europe HY		423	1.3	9	89	169	181	71
<b>Exchange Rates</b>					%			
USD/Majors		103.34	-0.1	0	4	13	8	7
EUR/USD		1.05	0.1	0	-4	-12	-7	-7
USD/JPY		129.9	-0.2	1	6	19	13	13
EM/USD		52.4	0.2	1	-2	-8	0	-1
<b>Commodities</b>					%			
Brent Crude Oil (\$/barrel)		109	3.9	4	3	70	44	20
Industrials Metals (index)		192	0.0	-6	-11	22	11	2
Agriculture (index)		76	1.2	-2	4	29	25	8
<b>Implied Volatility</b>					%			
VIX Index (% change in pp)		28.9	-0.3	-2.7	10.4	9.4	11.7	-2.1
US 10y Swaption Volatility		138.1	13.4	10.7	33.5	64.0	59.0	43.8
Global FX Volatility		10.9	0.0	0.7	2.0	3.7	3.5	3.4
<b>EA Sovereign Spreads</b>					10-Year spread vs. Germany (bps)			
Greece		243	1.3	20	32	119	91	3
Italy		194	1.9	16	37	84	59	22
Portugal		111	0.9	6	26	43	47	19
Spain		107	0.8	8	12	40	32	3

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



Last updated: 5/4/2022 7:43 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		6.61	0.3	-1.6	-4	-2	-4	-4		2.9	-0.1	-3	3	-33	3	2
Indonesia		14457	0.3	-0.3	-1	0	-1	-1		7.0	2.0	3	26	47	60	49
India		76	0.3	0.1	-1	-3	-3	-2		6.3	0.0	0	9	75	0	
Philippines		52	-0.1	-0.7	-2	-8	-3	-3		5.3	0.0	0	5	100	83	33
Thailand		34	0.1	0.1	-3	-9	-3	-6		3.0	15.2	26	62	100	116	78
Malaysia		4.35	0.1	0.2	-3	-5	-4	-4		4.3	-9.5	13	40	122	73	66
Argentina		116	-0.1	-0.9	-4	-19	-11	-7		52.9	8.4	6	360	645	229	489
Brazil		4.96	2.5	0.8	-7	10	12	1		12.2	1.0	1	106	298	155	71
Chile		856	0.6	-1.4	-9	-18	0	-8		6.3	0.2	-3	19	276	90	41
Colombia		4026	-0.5	-2.2	-8	-6	1	-3		8.7	0.0	35	114	285	232	86
Mexico		20.25	0.2	0.7	-2	0	1	0		9.0	0.0	9	77	211	148	116
Peru		3.8	0.4	0.2	-5	0	5	-2		7.8	-5.9	-25	107	244	194	185
Uruguay		41	0.0	0.2	1	7	9	3		10.1	0.0	20	104	265	134	191
Hungary		357	1.4	0.3	-6	-16	-9	-10		7.0	3.0	28	99	448	252	222
Poland		4.44	0.4	0.4	-5	-15	-9	-9		6.0	10.5	34	119	412	250	213
Romania		4.7	0.1	-0.2	-4	-13	-7	-7		7.1	26.5	55	112	445	223	190
Russia		67.3	1.6	9.6	24	11	12	21		12.5	7.9	-15	-152	514	371	130
South Africa		15.8	-0.3	0.4	-8	-9	1	-4		8.4	-4.5	18	58	83	100	84
Turkey		14.83	-0.1	-0.1	-1	-44	-10	-7		21.3	0.0	16	-414	292	-303	-113
US (DXY; 5y UST)		103	-0.1	0.4	4	13	8	7		3.00	-1.7	17	45	219	174	110

	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		4016	0.0	0	-6	-22	-19	-13		201	-12	-10	-8	-2	-7	
Indonesia		7229	0.0	-1	3	20	10	4		195	3	23	23	30	10	
India		55669	-2.3	-3	-7	14	-4	-3		171	0	23	12	39	17	
Philippines		6803	1.2	-3	-5	8	-4	-8		147	-1	24	51	46	10	
Thailand		1652	0.0	-1	-3	4	0	-3		0	0	0	0	0	0	
Malaysia		1600	0.0	0	0	0	2	1		125	2	7	3	8	-8	
Argentina		89585	2.3	0	-4	84	7	-2		1788	4	66	248	108	51	
Brazil		106528	0.0	-2	-12	-10	2	-5		294	4	5	35	-17	-37	
Chile		4786	0.5	2	-4	3	11	9		172	2	22	37	32	-2	
Colombia		1593	0.7	0	-2	31	13	6		384	26	38	144	36	-8	
Mexico		51067	-1.6	-3	-9	6	-4	-1		379	6	36	43	47	9	
Peru		22594	0.9	2	-9	16	7	-3		205	15	46	46	55	15	
Hungary		43155	-1.0	2	-5	-2	-15	-10		201	39	66	62	77	48	
Poland		56928	0.1	-3	-13	-6	-18	-9		-3	-33	-12	-40	-35	-19	
Romania		12533	-0.3	-1	-2	9	-4	-5		245	13	40	58	52	12	
Russia		2390	-2.2	9	-13	-33	-37	-23		3411	-577	938	3228	3234	2897	
South Africa		70745	-0.8	1	-7	7	-4	-6		395	27	36	51	40	6	
Turkey		2431	0.0	-2	8	74	31	21		523	5	-8	35	-55	-40	
Ukraine		519	0.0	0	0	-2	-1	0		3648	-40	834	3113	2889	2175	
EM total		43	-0.6	4	-9	-20	-13	-10		397	-11	27	34	11	-61	

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

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