GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, MAY 5, 2025

LEAD EDITOR: SANJAY HAZARIKA

- **Survey predicts US recession in 2025** (link)
- **Euro expected to appreciate further against the dollar** (link)
- **US equity and credit markets diverge** (link)
- **India sees large bond outflows** (link)
- **Strong remittances expected to support Mexican peso** (link)

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Markets stay cautious ahead of key central bank meetings

The S&P 500 has delivered nine consecutive days of gains and has rallied more than 12% from the low on April 8. This is the longest winning streak for the index since 2004, although US equity index futures indicate that the streak might finally be broken today. With 72% of the S&P 500 having reported, Q1 earnings have been much better than expected, 8.6% above analyst forecasts. Earnings in Europe have also come in well above expectations, and many European equity indexes are up again this morning. Government bond yields in the US and euro area are flat to slightly lower. Trading volumes are light after the Easter and May Day holidays, with many market participants choosing to stay on the sidelines ahead of the FOMC meeting on Wednesday and the BOE meeting on Thursday. Meanwhile, all eyes are on the US for any news relating to trade negotiations.

Key Global Financial Indicators

Last updated: 5/5/25 7:53 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5687	1.5	3	12	11	-3
Eurostoxx 50		5264	-0.4	2	8	7	8
Nikkei 225		36831	1.0	5	18	-5	-8
MSCI EM		45	2.9	4	11	6	8
Yields and Spreads					bps		
US 10y Yield		4.30	-1.2	9	30	-21	-27
Germany 10y Yield		2.51	-2.6	-1	-7	1	14
EMBIG Sovereign Spread		356	-7	1	10	-23	31
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		45.5	0.5	1	3	-3	6
Dollar index, (+) = $ appreciation		99.6	-0.4	1	-3	-5	-8
Brent Crude Oil ($/barrel)		60.5	-1.2	-8	-8	-27	-19
VIX Index (%, change in pp)		24.4	1.8	-1	-21	11	7

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

Wednesday's FOMC meeting is the main event for markets this week, with the consensus expecting the Fed to stay on hold. The focus will be on the rhetoric and guidance provided in the statement and press conference, especially due to the calls for rate cuts from the US President and the Treasury Secretary. Many analysts expect hawkish rhetoric from the Fed Chair. Meanwhile, US PMI data will be released later this morning. The euro area is scheduled to report PMI data tomorrow, with retail sales and German industrial production data to come out later in the week. The Bank of England is expected to deliver a rate cut on Thursday. This week also features central bank meetings in Brazil, Peru, Sweden, Norway, Poland, and the Czech Republic, among others.

Mature Markets

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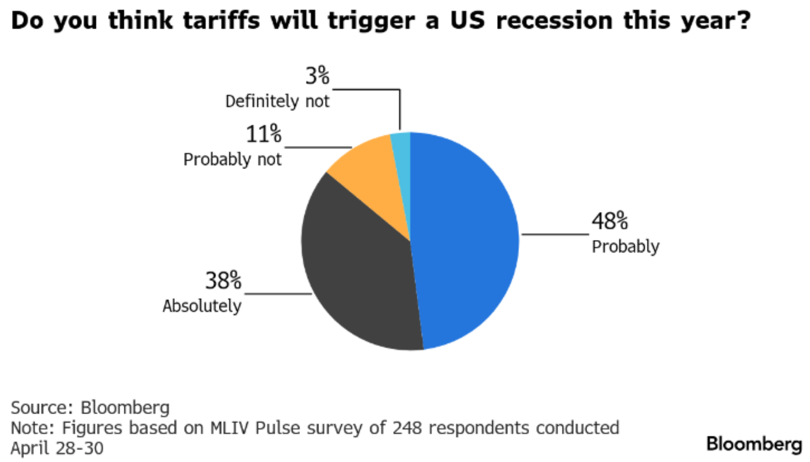
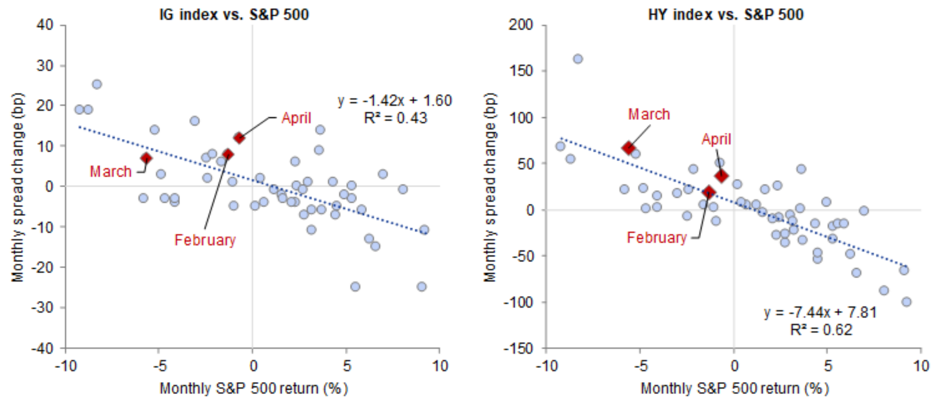
United States

The latest Bloomberg survey finds that many market participants expect a recession in the US in 2025. 86% of respondents said that a recession is absolutely or probably likely. Last week's lackluster ISM data reinforced the doubts about US economic prospects. The ISM manufacturing gauge fell to its worst level since May 2020, indicating that weakness in the manufacturing sector is already occurring even though tariffs have yet to take full effect. A sharp decline in shipments from China raises the prospect of further weakness ahead. 49% of the survey respondents expect the impact of tariffs will become manifest in the second half of May. Markets are pricing more than three rate cuts by the end of 2025, and the benchmark 10-year yield has fallen by 20 bps over the past few weeks, partially driven by fears about the economy. However, the better than expected jobs report on Friday was a positive surprise.



US equity and credit markets have diverged over the past few days. The stock market has recouped all its losses since April 2, with the S&P 500 now up 12% from the low on April 8. On the other hand, the US corporate bond market has only made up 30% of the spread widening that began when tariffs were announced, according to Goldman. Both the investment grade (IG) and high yield (HY) markets have underperformed relative to the equity market. This could be due to a more cautious approach from credit investors, or it could be due to the greater share of large technology names in the equity index relative to the corporate bond indexes. The Goldman analysts expect the damage from tariffs to result in wider credit spreads in the months ahead. Sharply higher Treasury yields would also put upward pressure on spreads in the corporate bond markets. Meanwhile, despite the recent rally, US stocks are falling further behind markets in Europe, South America, and Asia, where returns have been much higher in 2025.

Exhibit 1: Both the IG and HY markets have lagged their beta to the equity market in April



Source: Bloomberg, Goldman Sachs Global Investment Research

Euro area and the UK

Local equity markets and government bond markets posted small gains in the morning session. Markets in the UK are closed for the Bank Holiday

Despite the dollar recovery over the past 2 weeks, the euro is still expected to appreciate further in the medium term. The trend of euro appreciation has stalled recently, but option implied volatility for the euro-dollar cross remains elevated (Figure 1). While optimism on the trade deal front has recently supported the dollar, most analysts expect the euro to continue appreciating (Figure 2). More positive soundbites on potential trade deals and speculation of more exemptions for car parts have recently boosted the greenback. Also, US dollar funding conditions for non-dollar based investors remain stable despite the recent market volatility, with spreads on euro dollar foreign exchange basis swap markets steady so far. However, the still elevated levels of euro-dollar option implied volatility reflect persistent concerns about further trade deal uncertainty in coming months. Moreover, analysts at JP Morgan remain among the most bullish on the euro in the medium run, citing different factors in its favor. First, the US growth moderation theme vs. the euro area has more room to run and is therefore expected to continue. Second, the world is still long US equities and more re-balancing should continue to weigh on the dollar, with some euro area investors still holding large US equity exposures. Finally, European fiscal policy is expected to support euro appreciation in coming years.

Figure 1.

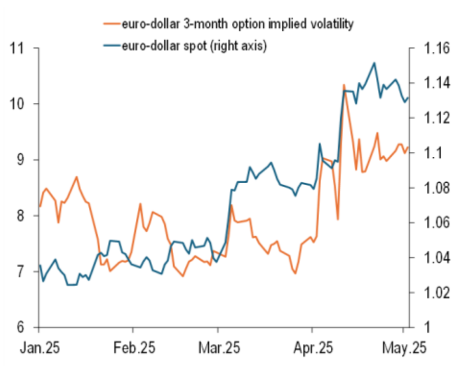
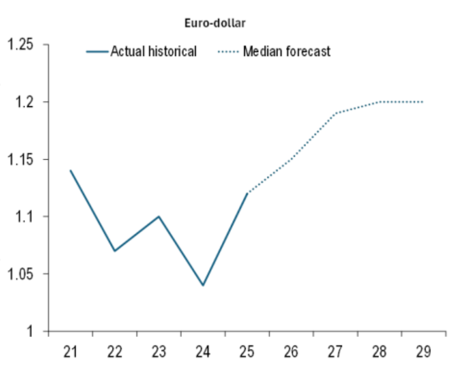


Figure 2.



Source: Bloomberg Finance LP. Note: the median forecast in Figure 2 is based on the forecasts of a large sample of sell-side bank analysts.

Emerging Markets

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EMEA equities were mixed today along with local currencies. Markets in Romania faced volatile conditions on press reports that the Prime Minister plans to resign. **In Asia, the Nikkei and Hang Seng made gains while China's CSI 300 was down.** Hong Kong SAR stocks are up over 12% for the year, led by the technology sector. **LATAM assets mostly traded higher on Friday on the broader risk-on sentiment.** The Colombian sol stood out as it continued to decline (-0.6%) for the third consecutive session following the unexpected policy rate cut by the country's central bank.

EM fund flows

EM Funds saw inflows of $1.2 bn last week, with bond flows turning positive. After several weeks of outflows, flows into EM bond funds accelerated to $0.5 bn. While the weekly inflows into hard-currency bonds (+$0.3 bn) was mostly into "broad" EM funds, local currency bond flows (+$0.1 bn) were driven by EMs ex-China. Equity funds, on the other hand, experienced deceleration in flows, which came to $0.8 bn, down from $1 bn in the week before. Overall, the YTD flows into EM funds stand at -$28.5 bn.

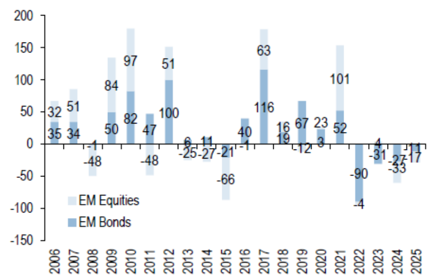
Figure 1: Weekly cross-asset flows

USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows			
EM Bonds and Equities		1.2	-28.5
EM Bonds		0.5	-11.1
Hard Ccy		0.3	-10.2
Local Ccy^		0.1	-0.9
o.w. EM ex-China		0.2	-2.4
o.w. China		0.0	-0.6
EM Equities		0.8	-17.3
US HG		-1.5	28.1
US HY		3.6	0.3
Global Equities		-7.8	15.5
EM Bond and Equity ETFs		1.5	0.0
EM Bond ETFs		0.6	-4.6
EM Equity ETFs		0.9	4.7
Non-resident EM flows*		4.9	-55.6

Figure 2: EM bond and equity fund flows

USD billion



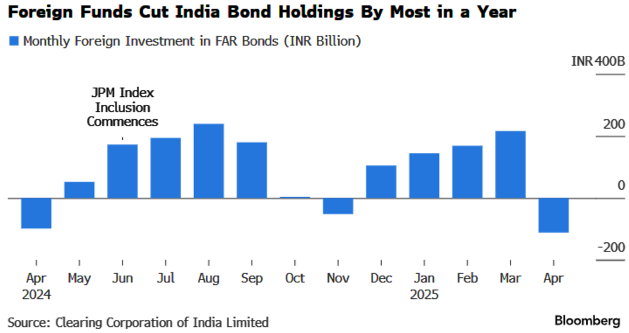
*High-frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only.

Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

India

India's index-eligible sovereign bonds saw heavy outflows in April. Overseas investors cut holdings of the Fully Accessible Route bonds by 111 billion rupees ($1.3 billion) to 2.95 trillion rupees. The total unhedged returns on Indian bonds reached the highest in over five years last month at 2.13%. Investors took profits after strong bond returns and a stronger rupee. Market volatility and U.S. tariff concerns hurt risk appetite. However, foreign interest in Indian stocks grew. India's economy looks better than many of its peers. Many analysts expect bond inflows to resume amid easing trade tensions, lower interest rates, and continued monetary support from the central bank.

Foreign Funds Cut India Bond Holdings By Most in a Year

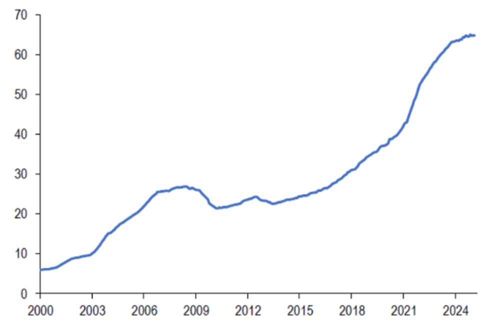


Mexico

Steady Mexican remittances seen providing support to the currency. A market report notes remittances received by Mexico are the largest source of USD receipts in the country and are estimated at 3.5% of GDP in 2024, predominantly originating from the US. Remittances have historically shown lesser sensitivity to the downturns in the US economy, particularly in comparison to commodities whose exports are closely related to the US economic outlook. Hence, remittances have served as one of the structural drivers of the Mexican peso (MXN). The report further notes that a decline in remittances to Mexico would require the US unemployment rate to surpass 6%. Considering that markets do not anticipate such a drastic rise in US unemployment and that the 10% effective tariff on Mexican exports to the US is much lower than the global average, remittances are expected to continue supporting the MXN. However, going forward, uncertainty over policies on immigration and trade could cause fluctuations in the currency.

Figure 6: Remittances constitute one of the structural drivers of MXN

Workers' remittances to Mexico; USDbn, 12m rolling sum



Source: J.P. Morgan, Banco de Mexico, Haver Analytics

Figure 7: Remittances and trade balance

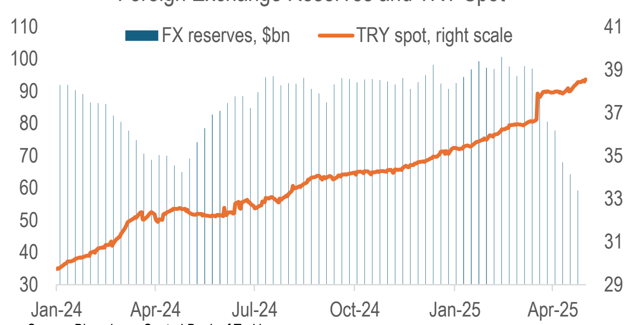
Annual, USD Billion ; Remittances are inflows from workers' remittances registered in the BoP

		2019	2020	2021	2022	2023	2024
Current account balance	USDbn	-3.9	26.9	-4.6	-17.7	-5.6	-6.0
	% of GDP	*-0.3%*	*2.4%*	*-0.3%*	*-1.2%*	*-0.3%*	*-0.3%*
Trade balance	USDbn	-4.3	21.7	-23.1	-42.6	-25.0	-16.3
	% of GDP	*-0.3%*	*1.9%*	*-1.8%*	*-2.9%*	*-1.4%*	*-0.9%*
Balance on goods	USDbn	5.2	34.2	-10.7	-27.1	-5.5	-8.2
	% of GDP	*0.4%*	*3.0%*	*-0.8%*	*-1.8%*	*-0.3%*	*-0.4%*
Balance on services	USDbn	-9.4	-12.4	-12.4	-15.5	-19.4	-8.0
	% of GDP	*-0.7%*	*-1.1%*	*-0.9%*	*-1.1%*	*-1.1%*	*-0.4%*
Remittances	USDbn	37.3	41.7	52.5	58.9	63.3	64.7
	% of GDP	*2.9%*	*3.7%*	*4.0%*	*4.0%*	*3.5%*	*3.5%*

Türkiye

Foreign exchange reserves dropped by $5 bn in one week to $59 bn as of April 25, according to the Central Bank of Türkiye, which is $41 bn lower than mid-February. Despite the 350bps rate hike this month, lira depreciation has accelerated in recent days. The stability of the lira, a pillar of the disinflation program, has continued to face severe pressure, and the central bank remains cautious against dollar demand after local markets turned volatile market in March after the detention of Istanbul's Mayor. Commerzbank analysts expect the lira to continue weakening against the US dollar, citing concerns over the credibility of the monetary policy and April inflation.

Foreign Exchange Reserves and TRY Spot



Source: Bloomberg; Central Bank of Turkiye

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Global Financial Indicators

5/5/25 7:54 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5,687	1.5	2.9	12.1	10.9	-3
Europe		5,264	-0.4	1.8	7.9	7.0	8
Japan		36,831	1.0	5.1	18.3	-5.2	-8
China		3,771	-0.1	-0.4	-2.4	3.1	-4
Asia Ex Japan		76	3.2	4.2	10.6	7.7	6
Emerging Markets		45	2.9	3.6	10.9	6.0	8
Interest Rates					basis points		
US 10y Yield		4.3	-1	9	30	-21	-27
Germany 10y Yield		2.5	-3	-1	-7	1	14
Japan 10y Yield		1.3	1	-8	-21	36	16
UK 10y Yield		4.5	3	3	-13	22	-6
Credit Spreads					basis points		
US Investment Grade		149	0	2	-2	32	29
US High Yield		404	-1	-16	-64	67	76
Exchange Rates					%		
USD/Majors		99.6	-0.4	0.6	-3.3	-5.1	-8
EUR/USD		1.13	0.4	-0.6	4.0	5.4	10
USD/JPY		143.9	-0.7	1.3	-2.7	-6.5	-8
EM/USD		45.5	0.5	0.7	3.2	-2.7	6
Commodities					%		
Brent Crude Oil ($/barrel)		60.5	-1.2	-6.6	-6.8	-22.0	-17
Industrials Metals (index)		141.6	0.4	-1.8	3.3	-10.0	1
Agriculture (index)		57.8	-0.5	-2.0	2.0	-3.4	1
Gold ($/ounce)		3313.0	2.2	-0.9	11.1	42.6	26
Bitcoin ($/coin)		94062.8	-1.7	-0.5	13.3	47.6	0
Implied Volatility					%		
VIX Index (%, change in pp)		24.4	1.8	-0.7	-20.9	10.9	7.1
Global FX Volatility		9.7	0.1	0.4	-0.3	2.4	0.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		85	2	1	-4	-13	0
Italy		110	0	-1	-9	-22	-6
France		72	0	0	-4	24	-11
Spain		65	0	-1	-4	-12	-4

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

Emerging Market Financial Indicators

Last updated: 5/5/2025 7:57 AM	Exchange Rates: Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Local Currency Bond Yields (GBI EM): Level Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		7.27	0.0	0.2	-0.2	-0.4	0.4		1.7	0	-4	-15	-62	1
Indonesia		16455	-0.1	2.4	2.2	-2.6	-2.0		6.8	1	-4	-16	-27	-22
India		84	0.3	0.9	1.9	-0.9	1.6		6.7	-1	-2	-6	-73	-64
Philippines		56	-0.3	1.2	3.0	2.6	4.0		5.0	-4	-4	-4	-70	10
Thailand		33	0.6	1.4	5.4	11.7	4.4		2.0	3	2	-1	-83	-32
Malaysia		4.20	1.3	3.9	6.7	12.8	6.4		3.7	-1	1	-2	-29	-16
Argentina		1171	-0.6	-0.7	-8.4	-25.1	-12.0		32.9	0	12	-297	-591	376
Brazil		5.66	0.3	0.5	0.0	-9.6	9.1		14.1	5	-8	-89	302	-181
Chile		948	-0.1	-1.4	0.7	-0.2	5.1		5.5	2	1	-9	-42	-15
Colombia		4250	-0.6	-0.8	-2.2	-8.2	3.7		12.0	-3	15	-1	142	20
Mexico		19.59	0.0	0.0	5.6	-13.8	6.3		9.4	3	8	12	-54	-96
Peru		3.7	0.4	0.5	0.6	2.2	2.9		6.6	3	-6	18	-54	-5
Uruguay		42	0.1	0.1	0.7	-8.7	4.1		9.6	-2	-5	8	46	-6
Hungary		357	0.4	-0.7	4.8	1.2	11.4		6.5	0	-6	-32	-54	9
Poland		3.77	0.4	-0.9	4.3	6.1	9.5		4.8	4	-1	-56	-70	-78
Romania		4.4	0.4	-0.7	4.0	5.2	9.4		7.4	8	13	20	79	16
Russia		80.5	2.8	2.6	7.2	13.4	41.0							
South Africa		18.3	0.4	1.1	7.3	0.8	2.8		10.8	4	0	-14	-114	37
Türkiye		38.58	-0.1	-0.4	-1.6	-16.4	-8.4		34.4	-63	-52	91	501	469
US (DXY; 5y UST)		100	-0.4	0.6	-3.3	-5.1	-8.2		3.90	-2	8	19	-60	-49

	Equity Markets: Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Bond Spreads on USD Debt (EMBIG): Level Last 12m	Latest	Change (in basis points) 7 Days	30 Days	12 M	YTD
									basis points				
China		3,771	0.0	-0.4	-2.4	3.1	-4.2		124	0	17	-15	28
Indonesia		6,832	0.2	2.3	4.9	-4.3	-3.5		116	-5	-8	12	25
India		80,797	0.4	2.0	7.2	9.3	3.4		129	3	17	29	43
Philippines		6,360	-0.8	1.4	4.5	-4.4	-2.6		93	-5	-4	3	14
Thailand		1,199	0.0	4.5	6.6	-12.5	-14.4						
Malaysia		1,540	-0.2	2.0	2.4	-3.6	-6.3		95	2	4	12	25
Argentina		2,100,844	-2.7	-6.2	-0.3	44.7	-17.1		709	17	-112	-532	72
Brazil		135,134	0.1	0.4	6.2	5.2	12.3		229	3	-5	20	-18
Chile		8,039	0.0	0.6	7.1	22.6	19.8		123	-8	-6	3	10
Colombia		1,642	0.3	0.0	1.3	18.5	19.0		379	2	35	79	53
Mexico		55,812	-0.8	-1.0	8.5	-2.3	12.7		334	1	17	25	22
Peru		30,223	0.4	0.3	7.3	4.3	4.4		142	-5	-8	-5	1
Hungary		93,060	0.9	2.1	12.1	36.8	17.3		173	-8	5	17	18
Poland		100,009	-1.2	-0.1	12.3	18.5	25.7		111	-5	2	14	-1
Romania		16,802	-2.0	-3.6	-0.5	-2.4	0.5		289	10	30	100	54
South Africa		92,252	-0.1	1.9	13.1	20.7	9.7		349	2	4	8	56
Türkiye		9,129	-0.4	-3.2	-2.7	-11.2	-7.1		336	-3	21	54	77
EM total		45	0.3	3.6	10.9	6.0	7.6		406	17	15	72	42

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

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