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## Markets Turn Cautiously Optimistic on Hopes That Middle East Tensions Will Recede

Stocks in Europe were higher and US equity index futures pointed to a positive opening as Monday's tensions in the Persian Gulf appeared to recede. However, the UK was down as HSBC and other local companies reported disappointing earnings. Oil prices were slightly lower, although uncertainties about the supply situation persist. Global equity markets have been supported by very strong corporate earnings, with US companies in the lead, and sentiment remains quite positive. However, market participants are keeping a wary eye on global interest rates, which are trending steadily higher. The UK 30-year gilt yield crossed 5.75%, the highest since 1998, while the US 30-year long bond is trading at 5.02%, not far from the post-GFC high of 5.13% reached back in 2023. A continued rise in interest rates could put severe pressure on risk assets, given widespread worries about the fiscal challenges facing the US, EU, UK, and other advanced economies.

Key Global Financial Indicators

Last updated: 5/5/26 7:50 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		7201	-0.4	0	9	27	5
Eurostoxx 50		5842	1.4	0	3	11	1
Nikkei 225		59513	0.4	1	11	62	18
MSCI EM		64	0.0	1	13	41	17
<b>Yields and Spreads</b>			bps				
US 10y Yield		4.44	-0.3	9	9	9	27
Germany 10y Yield		3.09	-0.1	2	9	57	23
EMBIG Sovereign Spread		241	-2	-5	-38	-115	-12
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		47.2	0.3	0	2	4	1
Dollar index, (+) = \$ appreciation		98.5	0.1	0	-2	-1	0
Brent Crude Oil (\$/barrel)		112.7	-1.6	1	3	87	85
VIX Index (% change in pp)		17.7	-0.6	0	-6	-6	3

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

Key Global Inflation and Energy Indicators

Last updated: 5/5/26 7:52 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Oil and Gas</b>			%				%
Brent Crude Oil (\$/barrel)		113	-1.6	1	3	87	85
WTI Crude Oil (\$/barrel)		104	-2.3	4	-7	82	81
Natural Gas (Netherlands TTF)		48	-1	5	-4	47	80
<b>Breakeven Inflation</b>		%	bps				
USD: 2Y		3.1	-2.3	6	22	29	82
USD: 5Y		2.8	-0.9	9	21	30	46
USD: 5YSY		2.4	-1	3	6	3	-1
EUR: 2Y		3.0	2.3	9	27	154	138
EUR: 5Y		2.5	0	6	19	78	72
EUR: 5YSY		2.2	1	2	2	10	10

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

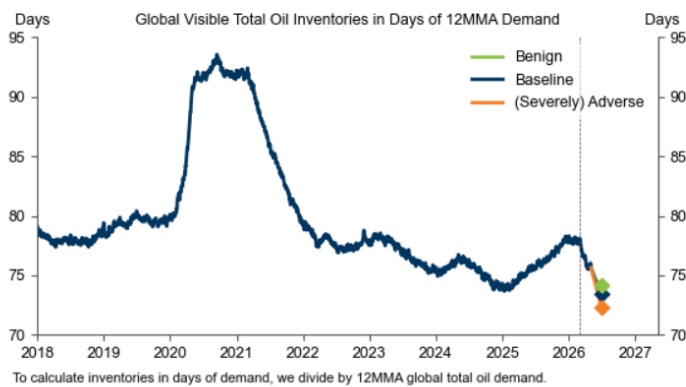
Mature Markets

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Oil Markets

**Global oil inventories could hit a modern day low even if flows through the Strait of Hormuz resume relatively quickly.** JP Morgan notes that holdings of oil by OECD countries could fall to 57 days of demand (DOD) by June, which would be the lowest since 2018, when satellite tracking of oil supplies first became technologically feasible. This outcome depends on a benign scenario in which flows normalize starting in early May through mid-June. Further delays to reopening of the Strait could run down inventories to even lower levels. Meanwhile, holdings of refined petroleum products could fall to just 41 DOD. News that attacks in the Persian Gulf region had resumed yesterday sent oil prices higher once again. Goldman notes that Brent hit a level \$25/barrel higher than its Q4 2026 average price forecast of \$90. The December Brent futures contracted was below \$80 two weeks ago and crossed \$91 yesterday.

Exhibit 1: Global Visible Total Oil Inventories Are Likely to Reach Modern Record Lows Even if Hormuz Flows Start Recovering in Early May



The benign scenario assumes a normalization in Gulf exports from early May to mid-June. The base case assumes a normalization in Gulf exports from mid-May to end-June. The (severely) adverse scenarios assume a normalization in Gulf exports from mid-June to end-July.

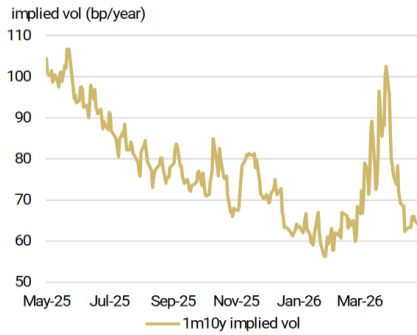
Source: IEA, Kpler, DOE, Euroilstocks, ARA PJK, PAJ, Haver, Goldman Sachs Global Investment Research

United States

**The sharp decline in volatility has surprised many investors as the closure of the Strait of Hormuz enters its 67<sup>th</sup> day and oil prices remain stuck at a very high level.** US swaption volatility has almost completely unwound its rise during the peak of the crisis, with one month forward/ten-year maturity swaption vols back close to 60 bps per annum. Realized volatility remains quite low, especially at the long end of the

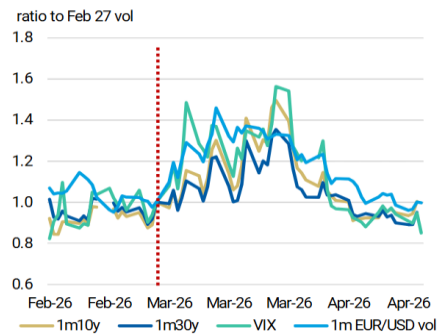
curve. The VIX peaked at 31 and is now back below 20, while the MOVE index of interest rate volatility shot up to 115 but fell back to 70. FX volatility has also fallen sharply. Some are worried that markets may be too complacent about the fallout from the conflict. The recent strong rally in risk assets has been spurred by strong corporate earnings and optimism about the global economy, but analysts are warning that market participants do not fully understand the impact of the closure of the Strait and that multiple negative outcomes could create cascading effects across the global economy and deliver a major shock to markets.

Exhibit 1: 1y history of 1m10y implied vol



Source: Bloomberg, Morgan Stanley Research.

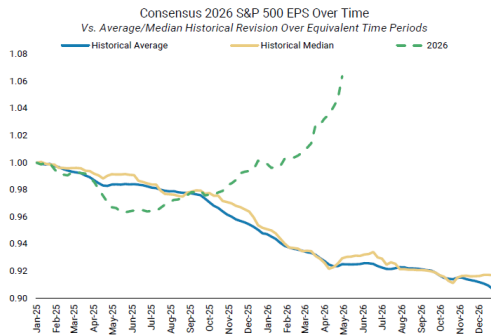
Exhibit 2: Cross asset implied 1-month vol indexed to Feb 27 level



Source: Bloomberg, Morgan Stanley Research.

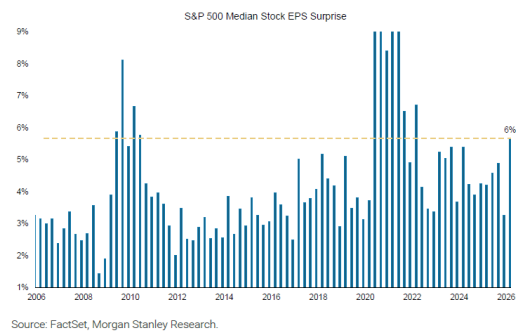
**US corporations have delivered very strong earnings in Q1, pushing the equity market to multiple records last week.** According to Morgan Stanley, median earnings per share (EPS) was up 16% for large cap stocks and companies beat earnings forecasts by the largest margins in four years. The EPS gain for small cap stocks was even larger at 21% compared to 8% at the beginning of 2026. In addition, the rally is now quite broad, with new records in the S&P 400 mid cap index and the S&P 600 small cap index as well as the large cap S&P 500. The rally has extended well beyond the technology and semiconductor sectors, extending to financials, industrials, materials, and consumer cyclicals. However, the US semiconductor sector stands out from all the others as it is up 250% over the past year. In response to these results, analysts have made significant upward revisions to their earnings forecasts for the next 12 months. Despite the record market highs, equity PEs are 10% below their peak as earnings outpace equity price gains.

Exhibit 1: Upward Revision to 2026 EPS Estimate Is Fairly Unprecedented



Source: FactSet, Morgan Stanley Research.

Exhibit 2: Median Stock EPS Surprise Is At a 4-Year High in 1Q Reporting Season



Source: FactSet, Morgan Stanley Research.

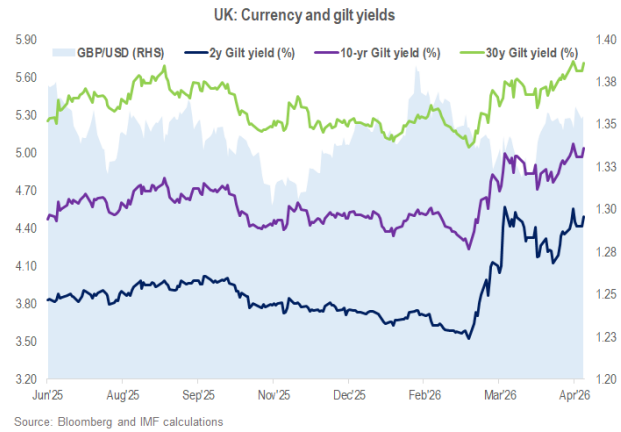
**Euro Area**

**European equities were trading higher on strong corporate earnings.** The Stoxx 600 index was trading around 0.4% higher with all sectors trading in positive territory. Regional bourses were also higher while European government bond yields declined across the curve as Brent crude prices eased after yesterday's spike. The 2Y bund yield was around 4bp lower at 2.68% while intra-EMU government bond spreads were

tighter: the 10Y OAT-Bund spread was 1bp tighter at 65bp while the 10Y BTP-Bund spread was 3bp tighter at 82bp. Elsewhere, Bloomberg reports that Alphabet is returning to the euro debt market selling around €3bn across six tranches.

**United Kingdom**

**The UK Debt Management Office (DMO) and Treasury announced measures to broaden the UK T-bill market.** They announced that a 12-month T-bill at weekly tenders will be introduced by the end of the 2026–27 financial year. In addition, a Standing Repo Facility (SRF) for T-bills will be established in the 2026–27 financial year, which Treasury and the DMO believe would strengthen dealers’ ability to transact and support secondary market liquidity. The DMO will also create and maintain a T-bill collateral pool that could be deployed in the secondary market. This morning, **UK gilt yields were trading higher**

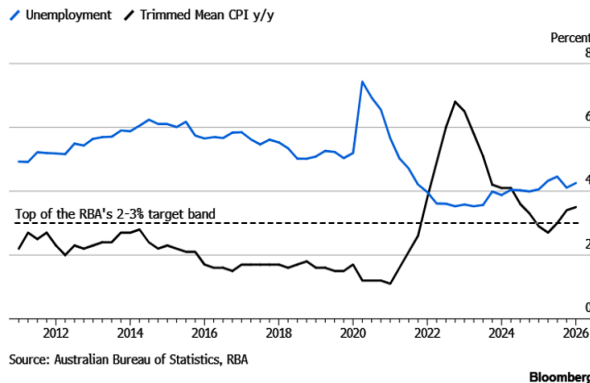


**across the curve, underperforming European peers** with market participants pointing to higher oil prices and renewed inflation fears as well as this Thursday’s local elections as key drivers. Elsewhere, HSBC’s Q1 profit missed estimates, coming in at \$9.4bn against \$9.6bn. The bank also booked around \$1.3bn in expected credit losses in Q1, including a \$400mn fraud-related charge in the UK and \$300mn increase in allowances due to the deteriorating global outlook given the Middle East conflict. HSBC shares were down over 5% lower in early morning trade.

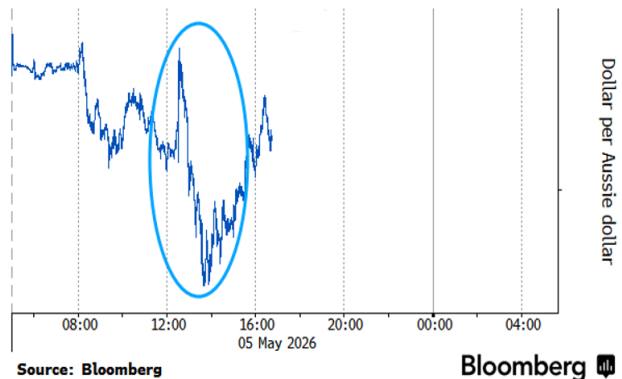
**Australia**

**The Reserve Bank of Australia raised the policy rate to 4.35% from 4.1% in an eight-to-one vote.** This unwound all of last year’s cycle of monetary easing and underscored the RBA’s determination to tame stubbornly high inflation. Governor Bullock told reporters that the rate hike would provide policymakers with room to assess its next steps and monitor if inflation expectations will stay anchored. Traders significantly scale back expectations of near-term tightening, with markets pricing only one more hike by year-end as the base scenario. The Australian dollar weakened (-0.2%) to 0.7158/\$, while 10-year government bond yield fell 1bp to 4.97%. The RBA’s revised projections also show weaker growth and higher unemployment. Under its latest forecasts, trimmed mean inflation is seen rising to 3.8% in June then cooling down to near its 2.5% target mid-point by end-2027.

**Stubborn Inflation Forces RBA's Hand Yet Again**



**Aussie Dollar Falls After RBA Decision**



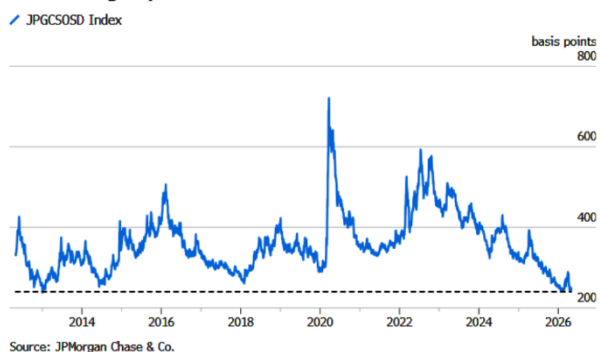
**Emerging Markets** [back to top](#)

**EMEA equities and currencies were mostly higher in early morning trade.** In CEE, equities in Poland were outperforming (+0.6%) while the Hungarian forint was outperforming on the currency front. **Asian currencies weakened slightly (EM Asia: flat), led by Thai baht (-0.4%) and Indian rupee (-0.3%).** Indonesia rupiah also depreciated (-0.3%), setting a record low near 17,442/\$ and prompting Bank Indonesia to intervene through offshore and domestic NDFs, spot transactions and government bonds in the secondary market. Asian equities were mixed (EM Asia: -0.3%). **Latam markets followed the US lower yesterday.** The Colombian peso depreciated by 2.4% to its weakest level since March. The MSCI Latam equity index fell by 1.2% and local government bond yields were markedly higher (Brazil's five-year yield went up by 12 bps).

**EM Hard Currency**

**Market analysts warned that hedging is needed as EM hard currency spreads trade at their tightest levels since 2013.** JP Morgan analysts recommend using CDS to protect against potential losses, while Fidelity Investments and Frontier Road Limited are reducing their exposure. Portfolio managers at PPM America remain selective, focusing on countries that could outperform despite the conflict in the Middle East as valuations become stretched. Although Bloomberg analysts argue that improving fundamentals should limit overly pessimistic positioning, Van Eck analysts note signs of investor fatigue, with repeated short squeezes, adding that there are signs of market “complacency, exhaustion and FOMO.”

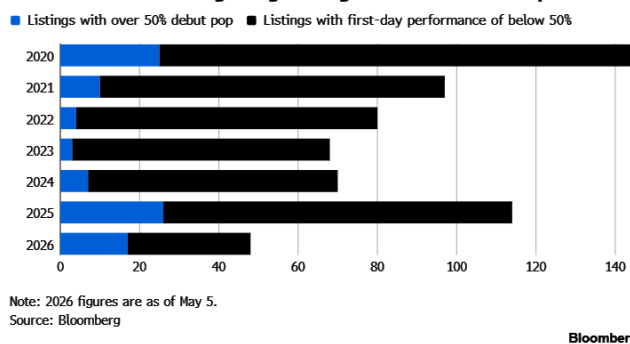
**EM Sovereign Spread Falls to Lowest Level in Over a Decade**



**China**

**Star Sports Medicine Co. extended a run of hot IPO listings in Hong Kong.** Shares of the Beijing-based medical device maker surged as much as 204% in their Hong Kong debut, with its retail portion subscribed more than 7,800 times following strong investor demand. The listing added to a run of strong performances by Chinese technology and healthcare firms, reinforcing investor appetite for growth-oriented Chinese names tied to structural themes such as population aging, medical innovation, and digital hardware. This followed last Tuesday's debut of optical-computing firm Lightelligence, posting a 380% first-day gain, and last Wednesday's business hardware and software firm Shanghai Sunmi Technology, a 241% debut. About one-fifth of Hong Kong's listings in 2026 have more than doubled on debut, and roughly a third have risen over 50%.

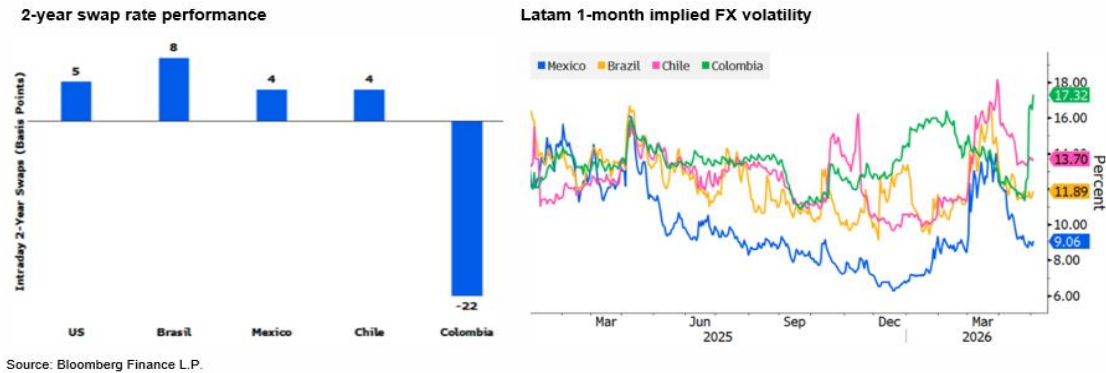
**A Chunk of 2026 Hong Kong Listings Had Handsome Pops**



**Colombia**

**The Colombian peso has underperformed since last week's unexpected hold by the central bank.** Market participants expected a hike in the face of rising inflation and were surprised when the central bank did not move. This triggered a sharp steepening of the swap curve, with two-year swap rates declining by more than 20 bps (*left chart*), compressing short-end yields, and reducing the COP's carry appeal. In addition, Bloomberg analysts noted that the decision may raise concerns about the central bank's credibility in containing inflation, adding risk to an already uncertain political backdrop. Deutsche bank analysts also

observed rising “perceptions of central bank interference and a subsequent loss of autonomy.” This reassessment is reflected in the FX and implied volatility (*right chart*) with COP lagging regional peers. In a broader risk-off environment, Bloomberg analysts also cautioned that higher oil prices may not be sufficient to provide meaningful support for the currency, and the COP tend to move in tandem with EM peers during periods of risk aversion.

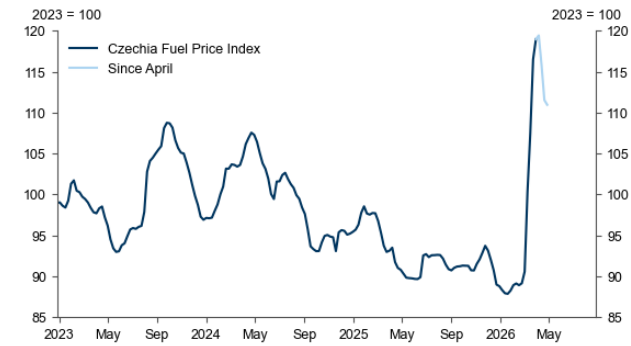


**Czechia**

**The Czech National Bank is expected to keep rates on hold at 3.5% later this week.**

Goldman analysts argue that favorable disinflationary dynamics going into the energy price shock gives policymakers the option of keeping rates on hold for the time being and to only respond if there is evidence of second round effects from higher energy prices. For now, they argue there is little evidence of that given the relatively weaker energy pass-through to inflation and smaller fuel weight in the CPI basket versus other CEE3 economies. The analysts believe that if energy prices continue to rise and the ECB tightens, the CNB will likely also hike, but think that market pricing which has around three ECB rate hikes in 2026 is overly hawkish.

**Exhibit 1: Fuel Prices Declined Somewhat Throughout April**




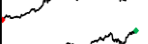





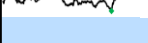






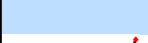
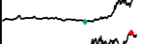











Source: Goldman Sachs Global Investment Research, Eurostat, Haver Analytics

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## Global Financial Indicators

Last updated: 5/5/26 7:54 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		7,201	-0.4	0.4	9.4	27.4	5
Europe		5,842	1.4	0.1	2.6	10.6	1
Japan		59,513	0.4	0.6	11.4	61.8	18
China		4,807	-0.1	0.4	8.3	26.2	4
Asia Ex Japan		110	0.2	1.3	14.9	43.1	19
Emerging Markets		64	0.0	0.7	13.3	41.4	17
<b>Interest Rates</b>			basis points				
US 10y Yield		4.4	0	9	9	9	27
Germany 10y Yield		3.1	0	2	9	57	23
Japan 10y Yield		2.5	0	4	13	125	45
UK 10y Yield		5.1	13	9	26	59	62
<b>Credit Spreads</b>			basis points				
US Investment Grade		116	-1	-2	-7	-33	8
US High Yield		325	1	-3	-41	-81	-11
<b>Exchange Rates</b>			%				
USD/Majors		98.5	0.1	-0.2	-1.5	-1.3	0
EUR/USD		1.17	0.0	-0.2	1.3	3.3	0
USD/JPY		157.7	0.3	-1.2	-1.2	9.8	1
EM/USD		47.2	0.3	-0.4	1.9	3.9	1
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		112.7	-1.6	7.9	13.3	84.7	87
Industrials Metals (index)		178.7	1.5	0.3	5.4	26.4	9
Agriculture (index)		59.6	-0.1	2.1	5.5	3.7	12
Gold (\$/ounce)		4561.3	0.9	-0.8	-1.9	36.8	6
Bitcoin (\$/coin)		80946.1	1.3	5.9	19.7	-14.1	-8
<b>Implied Volatility</b>			%				
VIX Index (% , change in pp)		17.7	-0.6	-0.1	-6.2	-5.9	2.8
Global FX Volatility		7.1	0.0	0.2	-0.9	-2.8	0.2
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		77	-3	-1	-4	-6	18
Italy		82	-3	0	-4	-27	12
France		66	-2	0	-3	-6	-5
Spain		46	-2	0	-2	-19	3

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

### Emerging Market Financial Indicators

5/5/2026 7:56 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		6.83	0.2	0.0	1.0	6.5	2.3		1.8	0	-1	-5	13	-10
Korea*		1474	0.4	-0.1	2.4	-6.5	-2.0		3.8	3	13	18	134	54
Indonesia		17424	-0.2	-1.0	-2.2	-5.6	-4.3		6.7	1	7	6	-8	69
India		95	-0.2	-0.8	-2.3	-11.6	-5.7		7.9	0	7	18	121	83
Philippines		62	0.0	-0.5	-2.5	-9.4	-4.3		5.9	19	33	42	95	123
Thailand		33	0.2	-0.4	-0.2	0.9	-3.5		2.3	0	3	-1	26	53
Malaysia		3.96	-0.2	-0.2	1.7	6.0	2.5		3.6	-1	1	#VALUE!	-11	5
Argentina		1402	-0.8	1.1	-0.8	-14.3	3.6		0.0	0	0	0	-3292	-3237
Brazil		4.96	-0.2	0.4	3.6	14.6	10.7		14.0	16	23	13	-14	42
Chile		912	-1.3	-1.8	0.7	3.3	-1.2		5.5	3	13	3	-3	20
Colombia		3723	-2.3	-2.3	-1.2	15.5	1.4		13.7	10	16	25	168	83
Mexico		17.44	0.4	-0.3	1.9	12.9	3.3		9.2	5	18	13	-19	23
Peru		3.5	0.0	0.0	-2.3	4.5	-4.1		6.7	2	6	-25	15	96
Uruguay		40	0.1	-1.1	1.1	4.3	-2.6		7.5	1	6	-15	-211	-4
Hungary		311	0.5	0.0	6.4	14.8	5.3		5.9	0	-2	-100	-59	-61
Poland		3.64	0.1	-0.4	1.6	3.6	-1.4		5.3	3	15	14	49	73
Romania		4.5	-0.6	-2.7	-1.2	-1.6	-3.0		7.1	0	11	18	-36	39
Russia		75.5	-0.6	-0.5	4.6	6.6	4.3							
South Africa		16.7	0.6	-1.0	1.0	9.4	-0.8		9.0	-2	16	-26	-181	44
Türkiye		45.22	-0.1	-0.4	-1.4	-14.7	-5.0		34.4	1	35	30	2	482
US (DXY: 5y UST)		99	0.1	-0.1	-1.5	-1.3	0.2		4.08	-1	10	10	14	36

	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		4,807	0.0	0.4	8.3	26.2	3.8		91	-3	3	-33	16
Korea*		6,937	0.0	7.1	27.3	171.0	64.6		29	0	-6	-2	7
Indonesia		7,057	1.2	-0.7	1.0	2.3	-18.4		97	-3	-17	-19	11
India		77,018	1.2	-0.4	3.9	-4.5	-9.6		88	-2	-6	-41	-2
Philippines		5,898	-0.7	-0.1	-0.8	-8.1	-2.6		83	-4	-15	-10	8
Thailand		1,490	-0.2	2.3	2.5	25.4	18.3						
Malaysia		1,747	0.4	1.8	4.0	13.7	4.0		49	-4	-11	-46	-10
Argentina		2,767,137	-2.3	-2.6	-7.7	34.3	-9.3		564	-26	-59	-145	-5
Brazil		185,600	-0.9	-2.7	-1.3	39.0	15.2		178	-7	-25	-51	-25
Chile		10,717	-1.8	-3.7	-0.2	33.6	2.3		87	-2	-14	-36	-4
Colombia		2,170	-0.4	-0.9	-4.9	32.1	4.9		245	7	-38	-134	-32
Mexico		67,284	-0.8	-2.8	-3.5	20.5	4.6		199	-6	-23	-135	-18
Peru		3,077	-1.7	-2.9	-6.0	72.9	19.1		93	-8	-18	-49	-16
Hungary		135,304	1.3	1.6	9.1	45.4	21.9		110	-6	-37	-63	-29
Poland		129,512	0.5	-0.2	3.1	28.9	10.5		89	-2	-11	-22	-2
Romania		27,995	-0.7	-4.0	0.3	68.2	14.5		192	-10	-12	-97	16
South Africa		115,179	0.5	-1.2	-0.8	25.1	-0.6		233	-6	-25	-116	15
Türkiye		14,415	0.3	-1.2	11.4	58.2	28.0		268	-4	-31	-68	34
EM total		64	1.4	0.7	13.3	41.4	17.2		257	-2	-35	-149	-14

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

\*Not an EM Under IMF Classification.

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