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- US investment grade issuance tops \$1.3 tn so far in 2021 ([link](#))
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Global markets rally on strong corporate earnings

Global equity markets are up today after yesterday's major rally in the US, with the S&P 500 posting its best one day gain since March. US equity futures and European stocks are higher across the board, while bond yields are reversing yesterday's move lower. Oil is also up today. Strong corporate earnings have helped push stocks higher in the US. Bank shares have been exceptional in the extent to which they have beaten forecasts, but their share prices have underperformed in the recent rally, perhaps due to their strong outperformance going into earnings season. European corporate earnings are also higher, although they continue to underperform relative to the US. However, despite these positive moves, the prevailing mood remains subdued as the global economy continues to grapple with multiple challenges including stubborn inflation, a myriad of supply bottlenecks and continued high infection rates for the virus. The slow rollout of vaccines to poorer countries remains a major problem.

Key Global Financial Indicators

Last updated: 10/15/21 8:03 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4438	1.7	1	-1	27	18
Eurostoxx 50		4167	0.4	2	1	31	17
Nikkei 225		29069	1.8	4	-5	24	6
MSCI EM		51	0.3	1	-2	13	-1
Yields and Spreads			bps				
US 10y Yield		1.54	2.8	-7	24	81	63
Germany 10y Yield		-0.18	1.4	-3	13	43	39
EMBIG Sovereign Spread		361	-2	4	16	-48	11
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.2	0.0	0	-3	1	-5
Dollar index, (+) = \$ appreciation		94.0	0.0	0	2	0	4
Brent Crude Oil (\$/barrel)		84.9	1.1	3	13	97	64
VIX Index (% change in pp)		16.5	-0.3	-2	-2	-10	-6

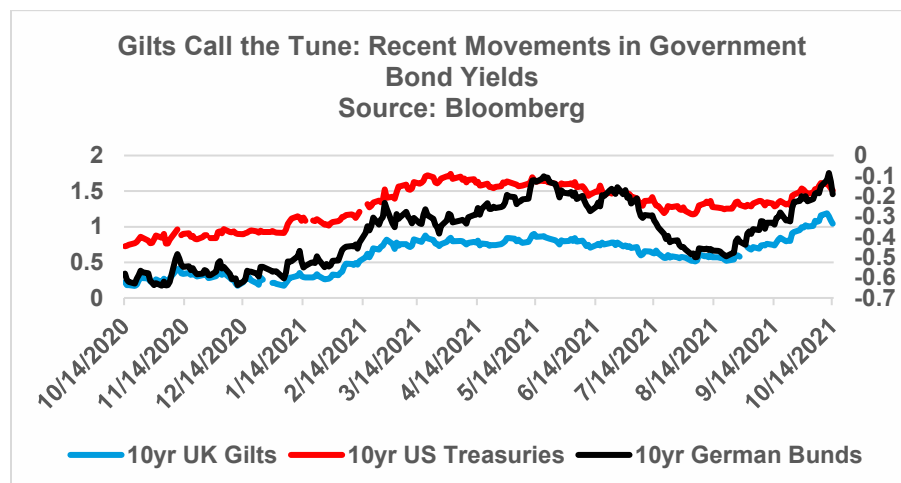
Colors denote tightening/easing financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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Global Bond Markets

Recent moves in key global government bond markets have been driven by UK gilts. Hawkish comments from members of the Bank of England's Monetary Policy Committee during and subsequent to last meeting on September 23 sparked a major selloff in the gilt market that pushed yields in other benchmark bonds markets including the US and Germany higher as well. Inflation is a common theme across all three markets and inflationary expectations are on the rise all over the world. However, gilt yields have pulled back from their recent highs and US Treasury and German bund yields have followed gilts lower.



United States

The latest retail sales numbers were much stronger than expected. On the other hand, the Empire Manufacturing Index came in well below forecasts. The market response to the retail sales numbers was immediate, with Treasury yields moving higher and the dollar appreciating.

Key US Economic Data

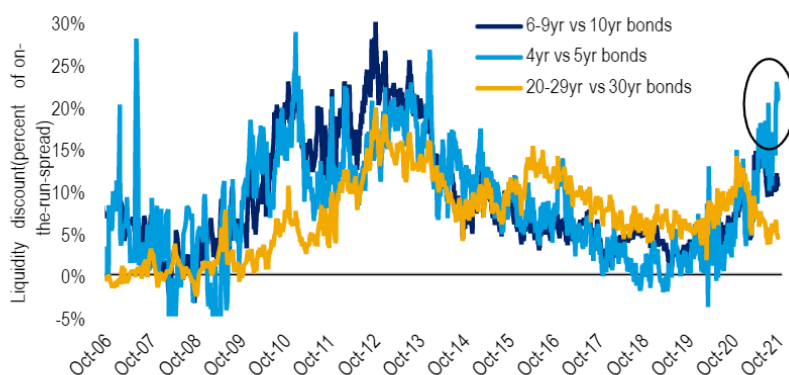
Source: Bloomberg

	Consensus Forecast	Actual Number
Headline Retail Sales	-0.2%	+0.7%
Retail Sales Ex-Autos	+0.5%	+0.8%
Empire Manufacturing	25.0	19.8

Liquidity in the US corporate bond market has deteriorated. Bank of America analysts find that the liquidity of off-the-run or older investment grade (IG) bonds, specifically those that roll down from five-year to four-year maturity, is at its worst level since 2006, when the time series was first begun. The front end of the IG yield curve has significantly underperformed the long end in recent weeks. The rise in interest rates and flattening of the US yield curve has been most severe in the five year sector, and investors have expressed a strong preference for newer and more liquid bonds as these do better when interest rates go up. Moreover, the long end of the yield curve is dominated by buy and hold investors such as pension funds and insurance companies who are less sensitive to liquidity and interest rate risk.

Figure 1: Liquidity discount for 4yr bonds is near the highest levels on record

The current level of 21% is close to previous peaks from 2014 and 2011.



Note: Liquidity discount is the spread difference between old bonds that have rolled down the maturity curve and their on-the-run 3, 5, 10 and 30-year counterparts on an issuer matched basis, adjusted for the curve.

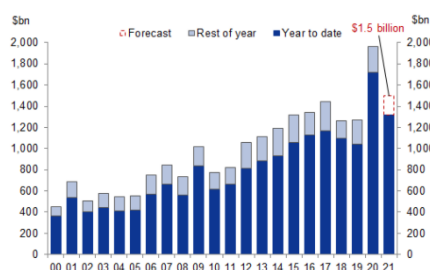
Source: BofA Global Research

BofA GLOBAL RESEARCH

Issuance in the US investment grade (IG) bond market has already crossed \$1.3 tn 2021, with the market on track to see the second highest issuance on record after 2020. Excluding 2020, this year is already 10% ahead of any previous year, according to data from Goldman. Demand remains very high and new issue concessions are very low as deals are heavily oversubscribed. Most IG companies in the US have very strong balance sheets and IG bonds offer very attractive a favorable risk-return profiles for investors, especially given the very high valuations seen in the equity market.

Exhibit 1 : USD IG new issue volumes remain solidly on track for the second largest year on record, after 2020

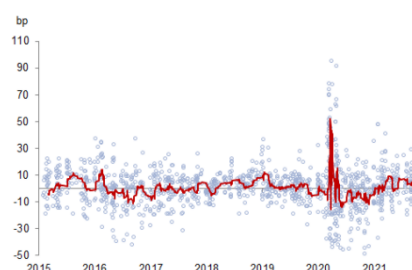
Annual new issue volumes in the USD IG market



Source: Dealogic, Goldman Sachs Global Investment Research

Exhibit 2 : Our estimates of new issue concessions have remained in the low to mid-single digits of basis points this year

21-day moving average of our estimate of new issue concessions in the USD IG market



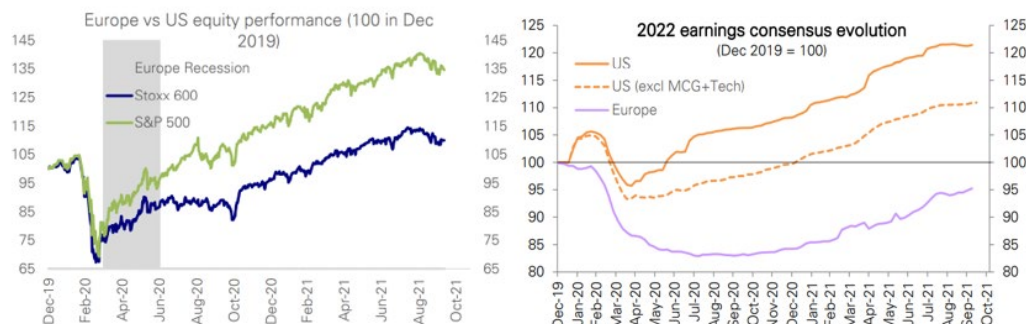
Source: Dealogic, Bloomberg, iBoxx, Goldman Sachs Global Investment Research

Euro Area

European equity indices were up around 0.5% while heading for their best week since March. Banks (+1.5%), automobiles (+1%) and energy shares (+1.0%) were outperforming. **European bond yields** were up around 2 bps with Italy underperforming (+4 bps).

The valuation gap between the European and the U.S. equity benchmarks has increased since the start of the pandemic and now stands at unprecedented levels. Deutsche Bank analysts attribute this mostly to the presence of mega-growth tech companies in the U.S. but note that European corporate earnings recovery has notably lagged that of the U.S. firms. European 2022 earnings estimates are still below the pre-pandemic levels, whereas those have recovered in the U.S. For the coming quarter,

Deutsche analysts expect a modest outperformance of Europeans earnings as compared to current consensus, which projects a 18% qoq decline mostly on the back of automotive and financial sectors.



Euro area negotiated wage growth remained contained despite growing inflationary pressures.

According to JPMorgan analysts, the negotiated pay growth slowed down in Q3 2021 to around 1.5%. Analysts note that although the figure predates the latest energy price surge, it serves as relatively low starting point from second-round effects perspective. Considering the recently negotiated deals, Germany's pay growth is expected to average around 2% in the coming months.

Euro area negotiated pay growth

%oya, box shows J.P. Morgan estimate for 3Q21 based on monthly data



Source: ECB, Eurostat, J.P. Morgan

The Italian government is closing in on a deal to divest parts of the Monte Paschi bank to UniCredit.

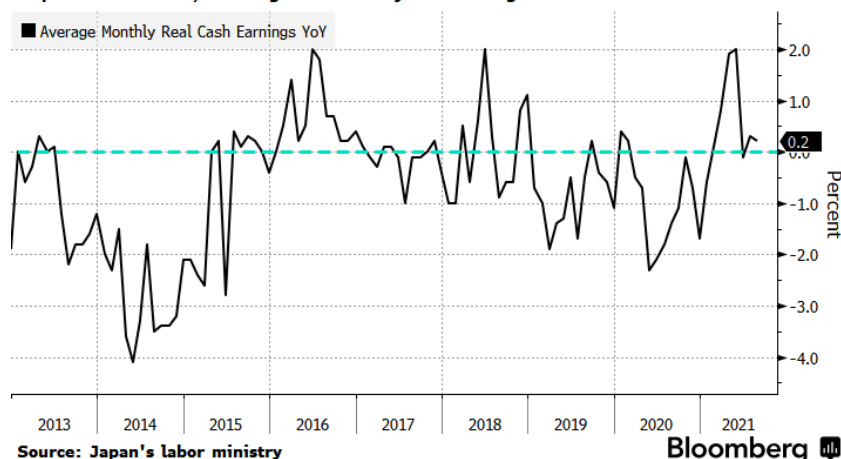
According to press reports, the latest proposal would include only a sub-set of profitable assets and business activities, mostly centered in Northern Italy. However, the deal would not include bad loans and legal risk with state retaining part of the business such as leasing and capital services. The capital increase is now expected to exceed €3 bn. While the agreement has not yet been finalized, the two sides are aiming to announce the deal by 28th October.

Japan

Prime Minister Kishida aims to adopt more inclusive policies to tackle inequality. Partly inspired by Japan's uninspiring wage growth over the past decade, he aims to shift economic policy by emphasizing the importance of distributing the benefits of growth more fairly. A new taskforce was set up to study how to create a virtuous cycle of growth and distribution in the new post-COVID society. **The Cabinet Office said the overall economic situation remains severe due to the pandemic** in its monthly assessment, which included a downgrade of public investment and exports—the latter reflected its view of a slowdown in the global recovery.

Uninspiring Wages

Despite some success, real wages have hardly risen during Abenomics



Emerging Markets

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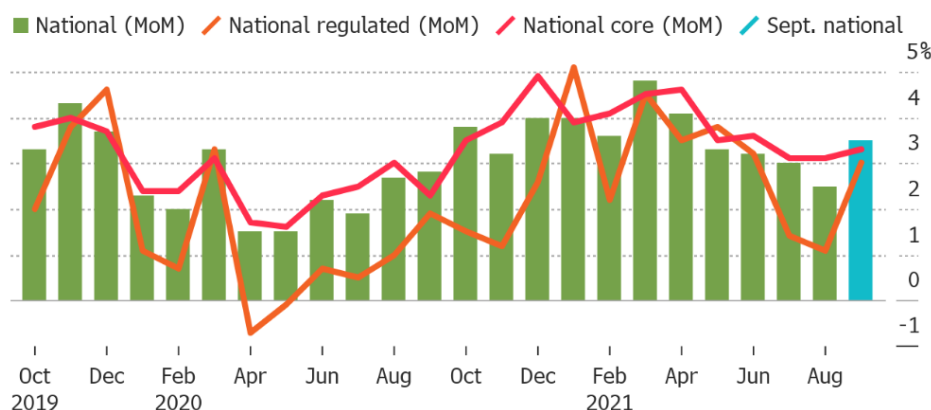
Most markets rallied on the back of the strong performance in US markets yesterday. Asia saw some of the biggest gains, with stocks sharply higher and currencies stronger. Latin America saw more modest gains and currencies were mixed. However, EMEA equity markets were mixed. **The Turkish lira (-0.6%) continued to depreciate as expected inflation in next 12 months jumped to 13.9% (from 12.9%).** In other regional news, **local currency bonds in Egypt and Ukraine will be eligible for inclusion in the JPMorgan GBI-EM Index from January and March 2022 respectively.** Index inclusion could help to lower borrowing cost and extend maturities and is expected to help secondary market development in Egypt.

Argentina

Elevated inflation pushed Argentina to implement unconventional measures. Driven by the reopening of economic activity, supply chain disruption, and money printing to finance public spending, inflation continues to accelerate in the third-largest economy in Latin America. In September, the mom inflation reached 3.5%, up from 2.5% last month and well above the forecast, while consumer prices rose 52.5% yoy. This acceleration has pushed President Fernandez to extend temporary price freezes to more than 1000 goods, ahead of the critical midterm vote.

Heating Up

Argentina's monthly national inflation rates jumped in September



Source: Instituto Nacional de Estadística y Censos

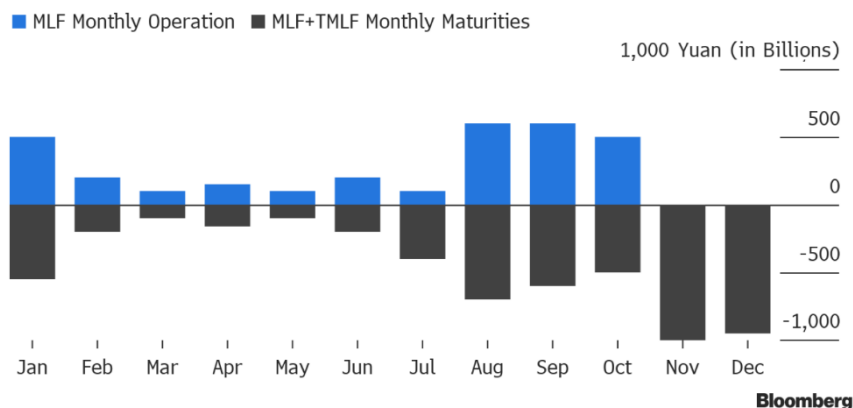
Bloomberg

China

The People's Bank of China fully rolled over Medium Term Lending Facility (MLF) funding at the same interest rate of 2.95%, with 500 bn yuan (\$78 bn) of funding under the MLF funding reaching maturity today. Analysts noted a key emerging tension—policymakers have become more patient under the cross-cyclical policy framework, while markets expect more easing due to growing conviction that growth is slowing. **Financial regulators reportedly told banks to accelerate mortgage loan approvals in the last quarter.** Banks were also permitted to apply to sell securities backed by residential mortgages to free up loan quotas, easing a ban imposed early this year

Mounting Debt

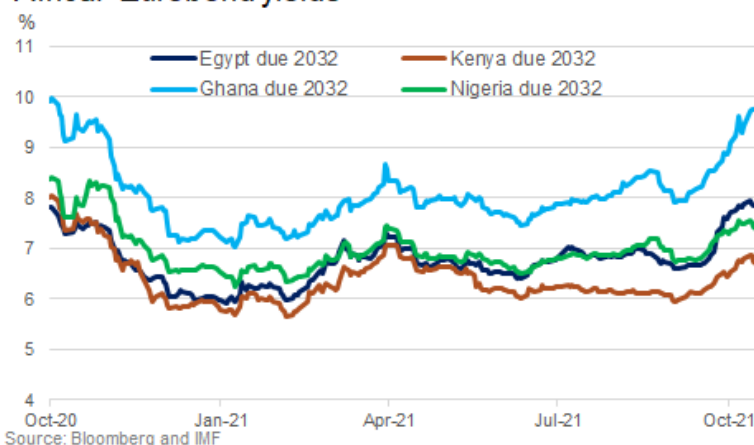
About 2 trillion yuan of medium loans expire in the remainder of the year



Ghana

Ghana's Eurobond yields have increased by 180 bps since early September as investors question the longer-term sustainability of debt and the country's ability to meet near-term fiscal financing needs. The central bank kept benchmark interest rates unchanged at 13.5% in September and noted that fiscal consolidation efforts appear to be on track, with some inherent risks associated with wage settlements and energy sector payments, amid low revenue mobilization. Analysts at JPMorgan expect lower external financing to be offset by increased domestic borrowing and central bank financing. **Ghana's inflation surprised on the upside (10.6% y/y) in September** (9.9% expected, from 9.7% in August), mainly driven by higher housing, water, energy, and food costs.

Africa: Eurobond yields



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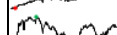



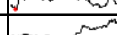

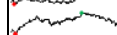



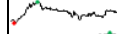

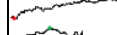

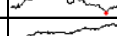
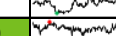
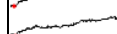



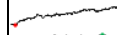













Global Financial Indicators

Last updated: 10/15/21 8:07 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4442	1.7	1	-1	28	18
Europe		4167	0.4	2	1	31	17
Japan		29069	1.8	4	-5	24	6
China		3572	0.4	-1	-1	7	3
Asia Ex Japan		86	0.3	1	-2	9	-4
Emerging Markets		51	0.3	1	-2	13	-1
Interest Rates			basis points				
US 10y Yield		1.54	2.8	-7	24	81	63
Germany 10y Yield		-0.18	1.4	-3	13	43	39
Japan 10y Yield		0.08	0.2	0	5	6	6
UK 10y Yield		1.07	3.2	-8	30	89	88
Credit Spreads			basis points				
US Investment Grade		88	-0.9	-5	-1	-38	-7
US High Yield		324	-6.4	-3	8	-180	-56
Europe IG		51	-0.4	-1	6	-5	3
Europe HY		258	-0.6	-6	32	-79	16
Exchange Rates			%				
USD/Majors		93.95	0.0	0	2	0	4
EUR/USD		1.16	0.0	0	-2	-1	-5
USD/JPY		114.3	0.6	2	5	8	11
EM/USD		55.2	0.0	0	-3	1	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		85	1.1	3	13	97	64
Industrials Metals (index)		184	3.3	10	10	54	39
Agriculture (index)		57	1.2	0	1	39	20
Implied Volatility			%				
VIX Index (% change in pp)		16.5	-0.3	-2.2	-1.6	-10.4	-6.2
US 10y Swaption Volatility		69.7	-0.2	-6.2	4.8	3.9	9.5
Global FX Volatility		6.8	0.0	0.1	0.3	-1.6	-1.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		109	-0.5	3	-3	-35	-11
Italy		104	1.3	1	3	-27	-8
Portugal		52	0.4	-1	-3	-24	-8
Spain		63	0.1	-1	-2	-13	1

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

Emerging Market Financial Indicators

Last updated: 10/15/2021 8:10 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	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		
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.43	0.1	0.1	0	5	1		3.1	8	5	-26	-18	
Indonesia		14075	0.3	1.1	1	4	0		6.2	-6	11	-58	14	
India		75	0.2	-0.6	-2	-3	-3		6.4	5	8	37	48	
Philippines		51	-0.2	-0.3	-2	-4	-5		4.3	4	8	74	68	
Thailand		33	-0.5	1.7	-1	-6	-10		2.0	9	26	51	67	
Malaysia		4.16	-0.1	0.5	0	0	-3		3.6	0	31	118	109	
Argentina		99	0.0	-0.2	-1	-22	-15		48.4	-53	95	564	-776	
Brazil		5.48	0.5	0.4	-5	2	-5		10.2	-13	8	406	461	
Chile		830	-0.6	-0.6	-6	-3	-14		6.4	36	115	366	365	
Colombia		3768	-0.7	0.2	2	2	-9		7.4	8	35	222	231	
Mexico		20.56	-0.1	0.7	-3	3	-3		7.4	-5	35	135	179	
Peru		3.9	1.4	4.4	5	-8	-8		5.8	-38	-64	174	225	
Uruguay		44	-0.5	-1.4	-3	-3	-4		8.0	16	13	66	79	
Hungary		310	-0.2	0.6	-5	0	-4		3.2	11	53	152	167	
Poland		3.93	0.2	1.1	-2	-1	-5		2.1	18	74	142	144	
Romania		4.3	0.1	0.3	-2	-2	-7		4.5	46	88	126	174	
Russia		71.2	0.2	0.7	1	10	4		7.3	-5	39	169	162	
South Africa		14.7	0.6	1.6	-2	13	0		10.1	1	43	-16	47	
Turkey		9.23	-0.5	-2.9	-9	-14	-19		18.7	70	183	538	555	
US (DXY; 5y UST)		94	0.0	-0.1	2	0	4		1.07	1	27	75	71	

	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		4932	0.4	0	2	3	-5		212	0	0	-26	-17	
Indonesia		6633	0.1	2	8	30	11		194	11	14	-32	-6	
India		61306	0.0	3	4	54	28		151	0	8	-53	0	
Philippines		7213	0.4	4	4	22	1		128	3	15	-3	16	
Malaysia		1598	0.4	2	3	6	-2		134	1	5	-32	-1	
Argentina		80138	2.2	2	2	66	56		1613	49	126	218	257	
Brazil		113186	-0.2	2	-2	14	-5		304	2	6	-8	45	
Chile		3996	0.0	-3	-10	9	-4		162	7	11	-15	6	
Colombia		1417	1.6	1	7	21	-1		289	-1	5	47	74	
Mexico		52140	0.6	2	0	37	18		351	1	8	-118	-6	
Peru		19745	0.3	2	10	12	-5		167	-2	-8	10	38	
Hungary		54638	-0.9	1	4	65	30		123	7	-22	-28	-26	
Poland		74199	-0.4	1	3	56	30		27	3	5	-3	-1	
Romania		12749	0.2	-1	4	45	30		205	4	7	-31	2	
Russia		4264	0.1	1	5	51	30		160	-3	-5	-58	-19	
South Africa		66942	0.1	3	4	22	13		359	-2	10	-138	-25	
Turkey		1412	0.0	1	-1	20	-4		510	19	41	-111	63	
Ukraine		526	0.0	0	0	3	5		495	-24	17	-203	2	
EM total		51	1.1	1	-2	13	-1		377	4	20	-20	39	

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

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