



- Record profits push S&P 500 to new all-time high ([link](#))
- US curve flattening could presage Fed rate hikes ([link](#))
- Inflation expectations in US bond markets decline ([link](#))
- European bond markets under pressure ([link](#))
- Reserve Bank of Australia leaves yield target undefended ([link](#))
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Global markets retreat as interest rates rise

Higher government bond yields are weighing on global equity markets. Yesterday's mildly hawkish ECB meeting set the tone, leading to a surge in interest rates overnight in the euro area. The Reserve Bank of Australia did not defend its long held yield curve target, indicating that an end to its policy of yield curve control is imminent, which put more upward pressure on global interest rates. US Treasury yields were also higher in early morning trading. European stock markets are in the red, while US equity index futures are pointing to a negative open. Although the VIX remains relatively subdued, interest rate volatility is noticeably higher. Nevertheless, October was a good month for world markets, with many bourses at or near record levels, propelled in part by a stronger than expected earnings season. With the virus situation gradually improving in most countries, hopes are that the year will end on a positive note.

Key Global Financial Indicators

Last updated: 10/29/21 8:21 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		4552	1.0	1	5	39	22
Eurostoxx 50		4211	-0.5	1	3	42	19
Nikkei 225		28893	0.3	0	0	26	5
MSCI EM		52	0.1	-1	3	14	0
Yields and Spreads			bps				
US 10y Yield		1.54	1.6	-4	8	77	68
Germany 10y Yield		-0.16	4.2	1	12	54	48
EMBIG Sovereign Spread		356	-3	1	1	-68	5
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		55.0	-0.2	0	-1	1	-5
Dollar index, (+) = \$ appreciation		93.6	0.2	0	-1	0	4
Brent Crude Oil (\$/barrel)		84.5	0.2	-1	7	124	63
VIX Index (% change in pp)		16.6	1.0	2	-5	-20	-5

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

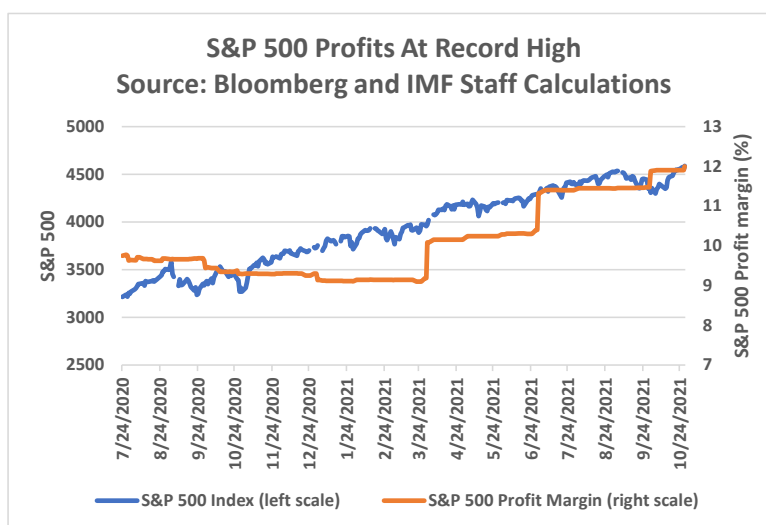
This morning's US inflation data was in line with expectations, confirming a slight decline in inflationary pressures. Personal income was sharply lower than expected (-0.3% vs. -1%), while personal spending met forecasts at 0.6%. Markets were little changed following the data.

US Economic Data 8.30 am

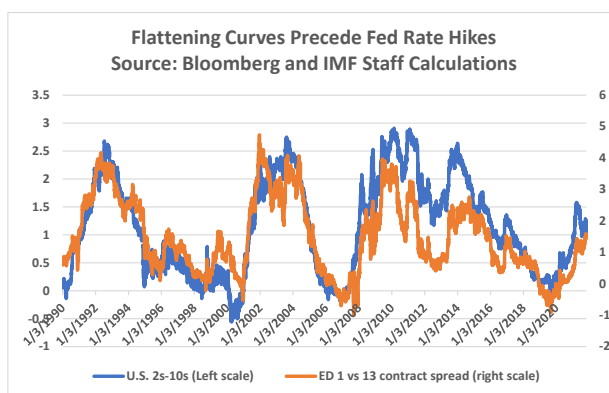
Source: Bloomberg

Data Release	Consensus Forecast	Actual Data
PCE Deflator mom	+0.3%	+0.3%
PCE Deflator yoy	+4.4%	+4.4%
Core PCE Deflator mom	+0.2%	+0.2%
Core PCE Deflator yoy	+3.7%	+3.6%

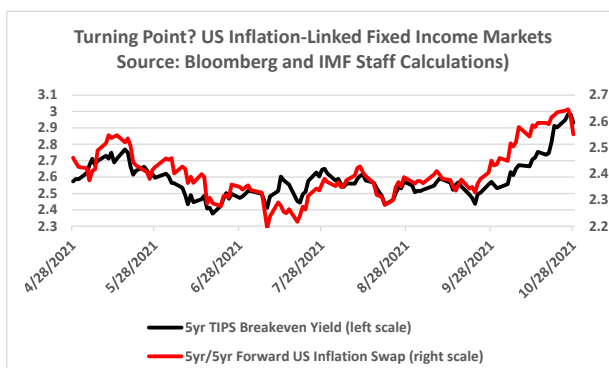
US stocks hit a new all-time high, propelled by the best S&P 500 profit margin on record. In most cases, Q3 earnings reports have been much stronger than expected, with companies such as Caterpillar and Ford blowing past analyst forecasts. Amazon and Apple were notable exceptions with results weaker than analyst forecasts. Non-financial companies in the S&P 500 index have raised their profit margins to 12.40%, up 40 bps from Q2, despite rising costs and supply chain bottlenecks. The Nasdaq also set a new record, while the Dow and S&P 400 Mid Cap indexes closed a fraction below their record closes from earlier in the week. Analysts expect more good results in Q4, but it remains to be seen whether inflation and shortages eventually begin to weigh on corporate results. Meanwhile, President Biden floated a revised \$1.75 tn version of his Build Back Better plan, but a vote is unlikely to be held for several weeks. Some analysts think continued negotiations will push the process into December.



Flattening yield curves precede Fed rate hikes. Both the US Treasury curve and the eurodollar futures spread (the first versus the 13th contract) saw significant flattening before the rate hike cycles that began in 1994, 1999, 2004 and 2015. Many contacts believe that the current flattening curve is no different, given that the market expects rate hikes to begin next year. To them, the flattening curve is a symptom of the underlying strength of the US economy, which Fed makes rate hikes timely and appropriate. However, the market expects the impending rate hike cycle to be quite short, with policy rates to remain in the post-GFC range rather than revert to levels seen in 2007 and before.



Bond market-linked US inflation expectations have declined recently after surging upwards all the way through September and October. Breakeven yields on five-year US Treasury Inflation Protected Securities (TIPS) were down 10 bps over the past three days, while the yield on the five year forward starting inflation swap was down as much as 18 bps over the same period. Both had surged since August and reached multi-year highs on Tuesday. Contacts were unsure if this was a break in the trend or a temporary pause before resuming the march higher. A rise in TIPS breakevens can sometimes be misleading about inflation because TIPS yields are significantly affected by oil prices, but the simultaneous rise in inflation swap yields convinced many that a major market repricing of inflation risk was underway.



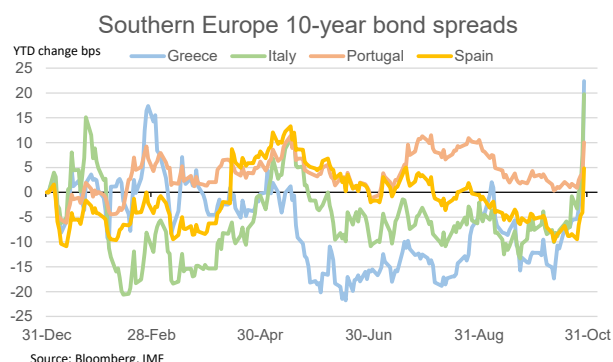
Australia

The Reserve Bank of Australia (RBA) left its bond yield target undefended, fueling expectations that the RBA will soon abandon the yield curve control framework. Government bond yields jumped (1-year: +9.0 bps; 10-year: +24.4 bps; 30-year: +21.8 bps). Analysts noted that while the RBA stepped in last Friday to purchase April 2024 bonds, it chose not to repeat the action today after the strong inflation data released earlier this week. Core inflation increased is now within the RBA's 2-3% target for the first time since 2015.



Euro Area

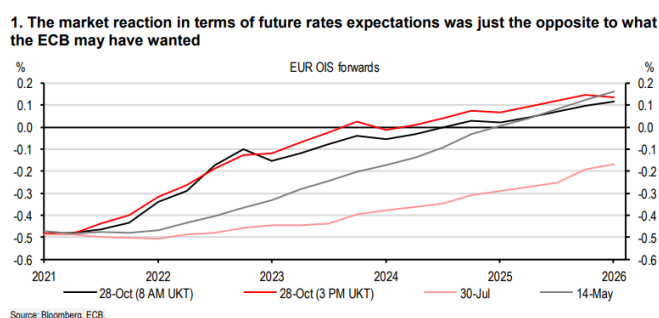
European bond markets were under pressure this morning. While 10-year bund yields were up 5 bps at -0.10%, Southern European spreads saw one of the biggest moves year-to-date with Greece (+17 bps) and Italy (+10 bps) underperforming. The euro 1-year ahead 1-year rate climbed 6 bps this morning with 24 bps of hikes now being priced for 2022. Corporate credit spread benchmark moves were more measured for now, with investment grade spread up 2 bps and high yield 8 bps wider. **Eurozone preliminary October inflation and Q3 GDP surprised to the upside.** The headline CPI accelerated to 4.1% yoy (3.7% consensus) with core price growth picking up to 2.1% yoy against expectations of a flat report. **Eurozone Q3 GDP expanded slightly above consensus at 2.2% qoq** (2.1% consensus) with annual growth at 3.7% yoy.



European equities were about 1% lower on average this morning. That said, the STOXX 600 was up close to 3.6% month-to-date with relatively broad-based gains on the sector level. This is largely due to stronger than expected earnings with about 60% of the firms beating earnings and revenue forecast halfway into the Q3 season. There are some notable exceptions like the accommodation and travel sector, which remained affected by Covid-19 related travel restrictions.

Sector (BICS)	Reported	Sales Surprise	Earnings Surprise
All Securities	233 / 441	0.77%	6.79%
> Materials	24 / 43	3.71%	3.40%
> Industrials	48 / 87	1.13%	-0.52%
> Consumer Staples	20 / 36	3.41%	2.20%
> Energy	12 / 17	1.60%	2.16%
> Technology	19 / 32	1.33%	18.01%
> Consumer Discretionary	25 / 42	-4.68%	-24.00%
> Communications	18 / 32	1.89%	1.74%
> Financials	33 / 64	3.37%	19.28%
> Health Care	18 / 41	1.88%	9.73%
> Utilities	4 / 23	-1.08%	-7.88%
> Real Estate	12 / 24	2.91%	-20.39%

Yesterday's ECB meeting is being assessed as mildly hawkish. 10-year bund yields rose by 7 bps after ECB President Lagarde said it was not for her to say whether the market was "getting ahead of itself" by pricing 20 bps of rate hikes in 2022. Her strong indication that the Pandemic Emergency Purchase Program (PEPP) would terminate in 2022 was also viewed as hawkish, although this was not entirely unexpected.

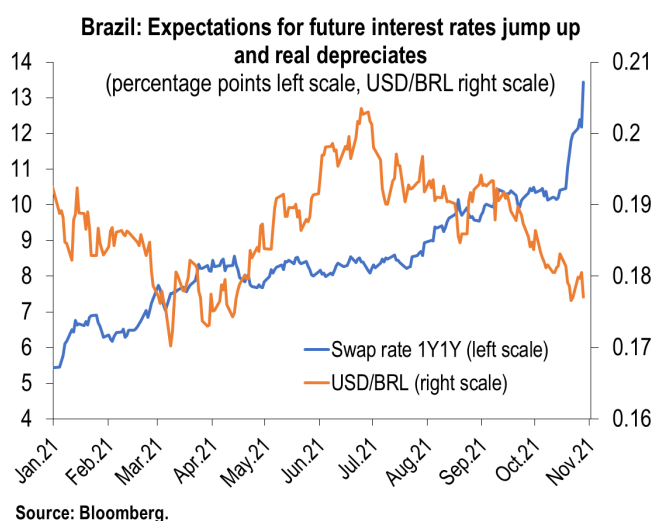


Emerging Markets [back to top](#)

EMEA equities were trading mostly higher with markets in Egypt (+1.25%) and Bulgaria (+0.9%) outperforming. In Egypt, the central bank left the benchmark deposit rate unchanged at 8.25%, in line with consensus expectations. In Asia, stocks were mixed and most government bond yields were higher. In China, Evergrande avoided default by making a coupon payment, while government intervention pushed coal futures prices lower. In Malaysia, the government announced a record spending plan of \$80 bn for 2022, with the budget deficit projected at 6% of GDP. Most Latin American markets were down while currencies depreciated, led by the Brazilian real.

Brazil

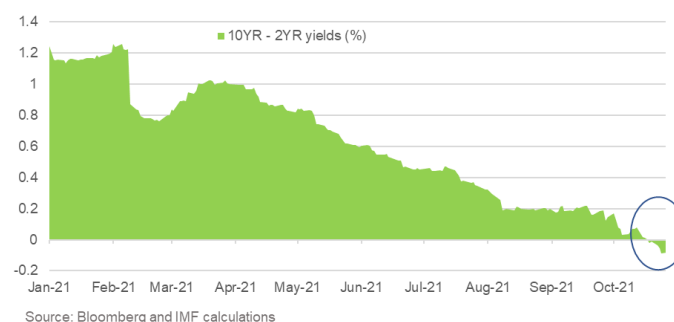
Brazilian assets took a hit yesterday after Wednesday's hike in the policy rate. The currency weakened yesterday by 1.9%, its biggest one-day loss since mid-September, while stock and bond markets retreated. A major increase in one year forward interest rates to 13.4% y/y, several percentage points above central bank projections for future policy rates, indicated that the current trend to higher inflation and interest levels is expected to last for quite some time. A 21.7% yoy October print in Brazil's IGP-M inflation (a mix of producer and consumer price inflation), 43 bps above market expectations, corroborated such notions. Meanwhile the administration was discussing options to bypass the delayed legislative process for a constitutional amendment aiming to soften the nation's spending cap via a provisional decree. Such a decree could allocate emergency funds to social transfer programs expected to run out of funding in the next few days.



Czech Republic

Czech Republic's preliminary economic growth estimate was lower than forecasts, falling to 2.8% yoy in 2021Q3, weighed down by an overall decline in external demand. Contacts have cautioned that the reintroduction of some restrictions following a higher number of Covid cases could further weigh on growth, while the recent inversion in the 2yr10yr yield suggests that an economic downturn could be imminent. Inflation has remained above the 2% central bank target for almost three years and reached a 13-year high of 4.9% y/y in September, when the central bank hiked interest rates by 75 bps. However, with expectations for inflation remaining elevated, market participants continue to price in further aggressive interest rate hikes – with a 100 bps hike priced in for the central bank meeting on 4 November.

Czech Republic - Spread between 10yr and 2yr yields



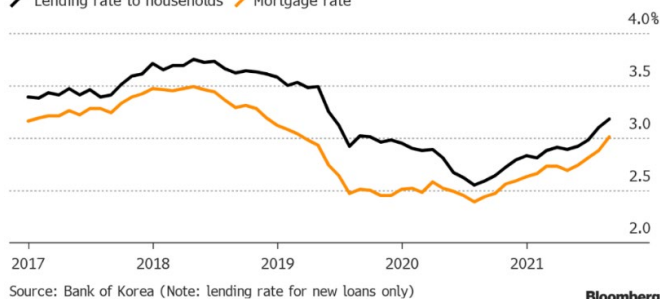
Korea

Korean government bond yields rose amid growing expectations of faster policy normalization by the Bank of Korea (BOK). One year and ten-year yields were up over 14 bps. The rise in bond yields occurred against the backdrop of the government and the BOK yesterday announcing measures to stabilize bond markets, including bond buybacks and reductions in bond issuance in November. Some analysts, however, noted that it would be difficult for the BOK to respond more aggressively to the rise in bond yields as it sets to tighten monetary policy to deal with financial stability concerns. The expected policy rate hikes by the BOK have already resulted in a rise in borrowing costs for households and corporates. Industrial production declined 0.8% m/m in September, worse than expected (consensus: -0.3%), while business confidence among manufacturing firms for November also declined.

Creeping Higher

Borrowing costs set to rise further as BOK mulls another hike

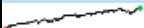

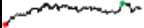

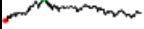
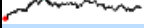
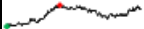
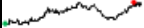
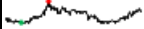
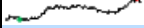
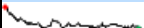
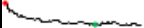
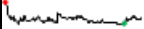



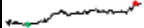

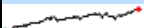


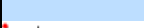



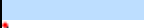


▲ Lending rate to households ▲ Mortgage rate



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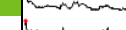



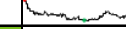




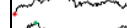


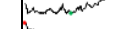

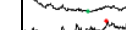
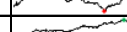





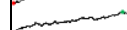
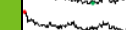
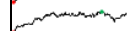



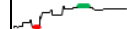
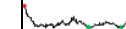
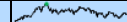
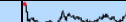
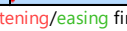
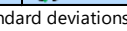
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Global Financial Indicators

Last updated: 10/29/21 8:15 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4579	1.0	1	5	38	22
Europe		4211	-0.5	1	3	42	19
Japan		28893	0.3	0	0	26	5
China		3547	0.8	-1	-1	10	2
Asia Ex Japan		87	0.2	-1	4	10	-2
Emerging Markets		52	0.1	-1	3	14	0
Interest Rates			basis points				
US 10y Yield		1.54	1.6	-4	8	77	68
Germany 10y Yield		-0.16	4.2	1	12	54	48
Japan 10y Yield		0.10	0.6	0	2	7	8
UK 10y Yield		1.03	1.9	-12	4	81	83
Credit Spreads			basis points				
US Investment Grade		84	0.2	4	2	-37	-6
US High Yield		317	-0.6	3	1	-217	-65
Europe IG		51	1.2	1	1	-13	3
Europe HY		263	5.5	4	14	-105	21
Exchange Rates			%				
USD/Majors		93.57	0.2	0	-1	0	4
EUR/USD		1.16	-0.3	0	0	0	-5
USD/JPY		113.9	0.3	0	2	9	10
EM/USD		55.0	-0.2	0	-1	1	-5
Commodities			%				
Brent Crude Oil (\$/barrel)		84	0.2	-1	7	124	63
Industrials Metals (index)		166	-1.2	-4	2	39	25
Agriculture (index)		59	0.2	2	3	43	22
Implied Volatility			%				
VIX Index (% change in pp)		16.6	1.0	2.1	-5.0	-20.0	-5.2
US 10y Swaption Volatility		73.0	-0.2	-1.7	1.1	-2.2	12.9
Global FX Volatility		6.9	0.0	0.0	0.1	-2.1	-1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		142	20.8	27	35	-17	22
Italy		128	9.5	18	25	-5	17
Portugal		63	7.1	11	7	-11	3
Spain		70	4.9	7	5	-7	9

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

Last updated: 10/29/2021 8:02 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		6.40	-0.1	-0.2	1	5	2		3.1	-1	8	-20	-17	
Indonesia		14168	0.0	-0.3	1	3	-1		6.2	-4	-1	-46	10	
India		75	0.1	0.0	-1	-1	-2		6.4	0	12	45	50	
Philippines		50	0.6	0.7	1	-4	-5		4.5	-3	18	86	80	
Thailand		33	-0.1	0.3	2	-6	-10		2.0	-6	15	52	68	
Malaysia		4.14	0.2	0.2	1	0	-3		3.7	0	18	120	113	
Argentina		100	0.0	-0.3	-1	-21	-16		50.3	49	82	119	-582	
Brazil		5.64	0.1	0.2	-4	2	-8		12.7	115	230	624	707	
Chile		808	-0.2	1.0	0	-4	-12		6.1	-25	73	338	331	
Colombia		3775	-0.4	0.2	2	1	-9		7.7	22	43	235	267	
Mexico		20.42	-0.2	-1.2	0	5	-2		7.6	3	25	149	199	
Peru		4.0	-0.1	-0.8	4	-9	-9		6.0	-7	-52	183	236	
Uruguay		44	-0.7	-0.3	-3	-2	-4		8.2	21	42	73	98	
Hungary		309	0.0	1.2	0	2	-4		3.4	8	59	172	189	
Poland		3.97	-0.2	-0.4	1	0	-6		2.3	12	90	176	171	
Romania		4.2	-0.3	0.0	0	-2	-6		4.4	-1	79	126	170	
Russia		70.6	-0.5	-0.1	3	12	5		8.1	59	90	235	239	
South Africa		15.2	-0.5	-2.5	0	8	-3		10.2	9	18	4	59	
Turkey		9.56	-0.2	0.5	-7	-13	-22		18.6	-15	70	436	553	
US (DXY; 5y UST)		94	0.2	-0.1	-1	0	4		1.21	2	22	84	85	

	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		4909	0.9	-1	1	5	-6		204	-2	-4	-33	-25	
Indonesia		6591	1.0	-1	6	29	10		174	3	3	-58	-26	
India		59307	-1.1	-2	1	50	24		132	-10	-11	-75	-19	
Philippines		7055	-1.4	-3	2	12	-1		108	0	-2	-26	-4	
Malaysia		1562	-0.3	-2	2	7	-4		125	-3	-4	-48	-10	
Argentina		86034	0.8	-1	12	92	68		1679	42	99	207	323	
Brazil		105705	-0.6	-2	-5	9	-11		320	-1	19	-2	61	
Chile		4096	0.0	0	-6	14	-2		156	-2	8	-30	0	
Colombia		1408	0.3	1	3	24	-2		294	10	-5	37	79	
Mexico		51249	-0.9	-1	0	39	16		343	-2	-11	-127	-14	
Peru		20959	0.4	0	14	18	1		168	11	-2	5	39	
Hungary		54278	1.0	-2	4	69	29		118	8	-10	-28	-31	
Poland		73587	0.5	0	5	64	29		45	12	24	20	17	
Romania		12756	-0.3	0	1	49	30		198	4	6	-46	-4	
Russia		4148	-1.0	-1	2	53	26		157	8	-2	-65	-22	
South Africa		67813	0.1	1	5	31	14		356	8	-10	-133	-28	
Turkey		1522	0.0	5	9	35	3		500	-11	-9	-145	53	
Ukraine		526	0.0	0	0	5	5		500	7	-15	-217	7	
EM total		52	-0.8	-1	3	14	0		375	3	3	-35	36	

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

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