GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, OCTOBER 22, 2024
LEAD EDITOR: BENJAMIN MOSK

- **Upward pressure on US rates seen to continue** (link)
- **Analysts warn of volatility if Japan's Liberal Democratic Party and Komeito lose majority** (link)
- **Higher policy rates weigh on Brazilian stock market performance** (link)
- **US rally seen to continue until year-end, but longer-term prospects falter** (link)
- **Chinese firms sold most foreign exchange to banks in September since December 2021** (link)

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US stocks: overbought or earned their stripes?

Yesterday, US equity markets showed moderate declines, while the technology sector outperformed and rate-sensitive sectors such as real estate underperformed. The S&P 500 index is up 23% year-to-date, but yesterday it was met by concerns that US stocks might be in overbought territory. According to a Bloomberg survey among investors, earnings (45%) currently matter most as a driver of stock prices, followed by US election news (39%) and the Fed rate expectations (16%). S&P 500 earnings expectations show an uptick for 2024Q2 in recent weeks, but downward adjustments for the third and fourth quarter. 20% of the S&P 500 companies are scheduled to report earnings this week; on Wednesday, Boeing's (morning) and Tesla's (after market) results will draw attention. European sovereign bond yields continued yesterday's increases, albeit at a slower pace (10-year Bund yield +4bps today and + 10bps yesterday). Contacts suggest three possible drivers behind yesterday's sell-off: rising oil prices boosting inflation expectations, investor repositioning ahead of the upcoming US election, and lastly, issuance pressures. Italian bonds led the selloff yesterday, increasing by around 15 bps in the longer-end of the curve, and some commentary cited the issuance announcement of the Treasury as a possible driver. But today. the syndicated issuance of its 7-year and 30-year bond was reportedly met by strong demand. US Treasury yields increased yesterday, up 11bps at the 10-year maturity, and trade slightly higher this morning as well. Yesterday, this was seen to boost the US dollar, with the US dollar index rising by 0.5%.

Key Global Financial Indicators

Last updated: 10/22/24 8:10 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		5854	-0.2	0	3	39	23
Eurostoxx 50		4930	-0.2	0	1	23	9
Nikkei 225		38412	-1.4	-4	2	24	15
MSCI EM		46	-0.7	-1	4	24	13
Yields and Spreads				bps			
US 10y Yield		4.20	0.2	17	46	-72	32
Germany 10y Yield		2.32	3.8	10	11	-57	30
EMBIG Sovereign Spread		336	0	-15	-33	-117	-47
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		45.1	0.1	0	-2	-3	-6
Dollar index, (+) = $ appreciation		103.9	-0.1	1	3	-2	3
Brent Crude Oil ($/barrel)		74.9	0.8	1	1	-19	-3
VIX Index (%, change in pp)		19.2	0.9	-1	3	-2	7

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

Mature Markets

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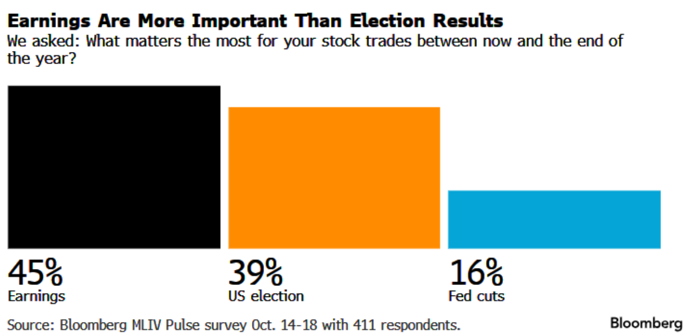
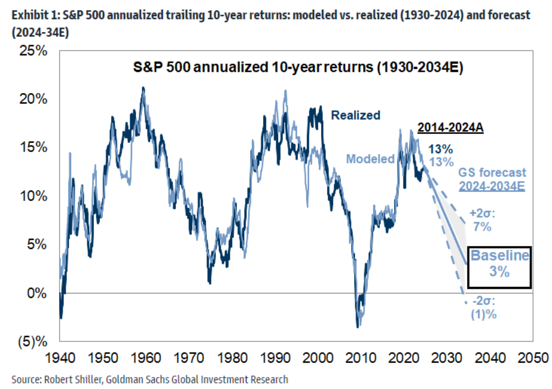
United States

US rally seen to continue to year end, but longer-term prospects falter. US stock markets took a breather yesterday, hovering at all-time highs and leaving analysts pondering future prospects. In the short run, some believe the S&P 500 remains overbought and vulnerable to profit-taking. Nevertheless, a Bloomberg survey suggests a year-end rally is likely if the corporate earnings remain robust. Those analysts consider corporate earnings a more decisive factor for market performance than election results or policy rates. With 25% of S&P 500 companies reporting so far and 76% surpassing estimates, the earnings season is promising. Corporate heavyweights like Tesla and IBM report this week, with most of the “Magnificent Seven” reporting later in the month. For the longer term, Goldman Sachs forecasts an annualized nominal return of around 3% over the next 10 years, a far cry from 13% in the last decade and the 11% long-term average. High starting valuations and market concentration are key factors driving this decline, as maintaining strong growth and high margins over an extended period is challenging.

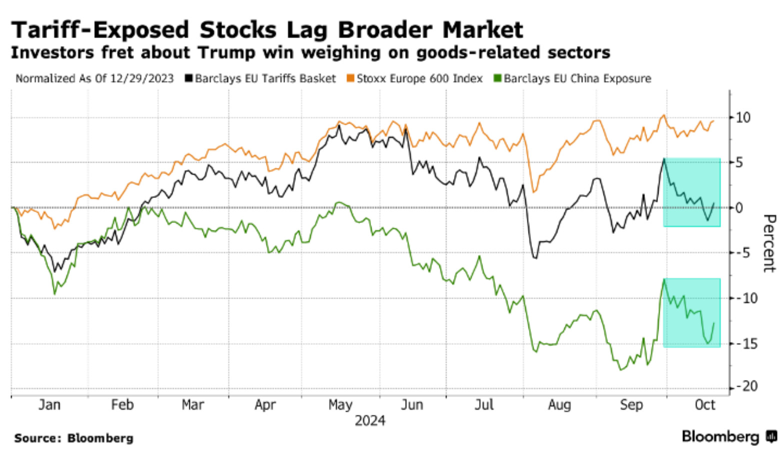




Upward pressure on US rates likely to continue. Since mid September, 10-year Treasury yields posted another large swing, rising almost 60bps. While almost half of the rise reflects increased inflation expectations, the remain part likely reflects a macro catch-up. JPMorgan analysts note that rates markets have priced-in higher recession risks compared to equities and credit, leading investors to favor long-duration Treasury positions with negative carry. As the soft landing scenario plays out, rate investors have underperformed cash and struggled to maintain negative carry positions, inducing volatility in the Treasury market. Analysts suggest that if the soft landing continues, bond yields could rise further to align recession probabilities in rates markets with those in equity and credit markets.

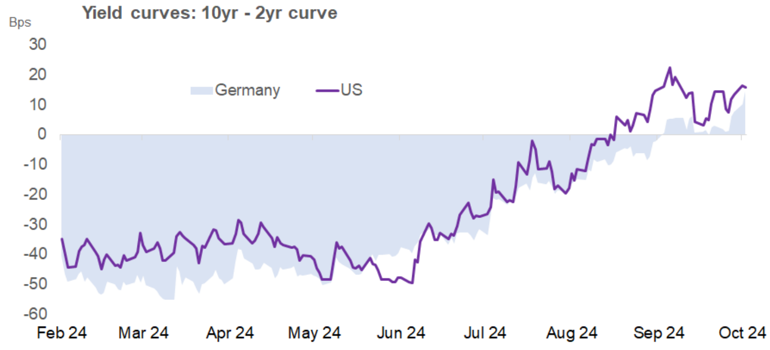
Europe

European equities were trading lower again this morning and are around 1.5% lower since last Friday’s close as markets reassess the outlook for monetary policy and upcoming US election uncertainty weighs on investor sentiment. The Stoxx 600 index was -0.8% lower led by declines in the utilities (-2.0%) and real estate sectors (-1.9%) which analysts note are sectors that are considered rate-sensitive. The technology sector (+1.4%) and energy sector (+0.3%) were bright spots with the former boosted by positive



earnings news and the latter by rising oil prices. Bloomberg takes note of the underperformance of tariff-exposed European stocks this month, and also mentions that Goldman Sachs estimates that tariffs escalating globally could reduce Stoxx 600 yearly EPS growth by up to 9 pp.

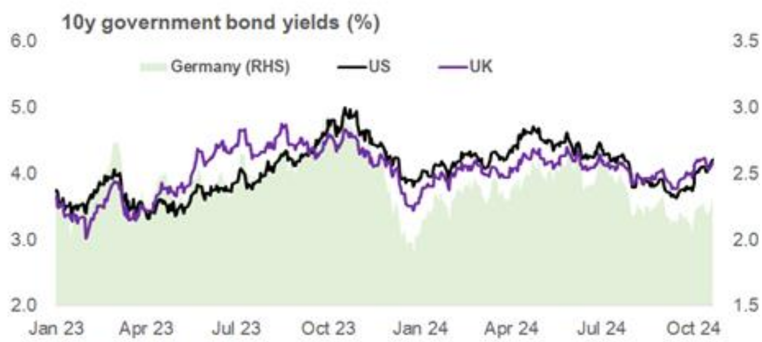
European government bond curves are expected to steepen further. Government bond yields continued to increase this morning, rising by around 5bps in intermediate tenors and building on yesterday's moves which saw 2-, 5- and 10-year German government bond yields rise by 7, 9 and 10bps respectively. Analysts at Commerzbank expect this steepening trend to continue citing concerns over supply and uncertainty over the ECB's rate path. On yesterday's price action specifically, the analysts note that issuance from Italy which included a new 7Y BTP and 30Y syndication as the Treasury looks to capitalize on last week's outlook upgrade from Fitch Ratings, likely surprised markets as reflected by 10Y Italian government bond yields rising by 15bps yesterday. Commerzbank analysts also note that investors will be looking to speeches from ECB officials later today for clues on the future path for monetary policy including the terminal rate where market expectations have repriced from seeing the terminal rate at 1.75% by September 2025 on Friday to 1.86% as of today. This morning, the 10Y Italian BTP spread over equivalent tenor bunds was steady at 123bps having risen over 5bps yesterday while the 10Y French OAT-Bund spread was stable at around 74bps. Meanwhile, 2Y bund yields were broadly unchanged at 2.17% this morning, while 10Y bund yields were 5bps higher to trade at 2.33%.



Source: Bloomberg and IMF calculations

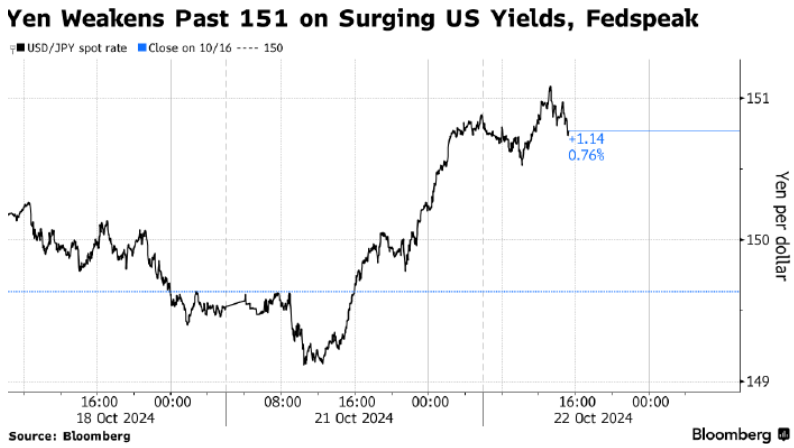
United Kingdom

UK public sector borrowing was above official estimates in the first six months of the fiscal year. Data released today showed that public sector borrowing came in at £16.6bn in September with borrowing for the first six months of the fiscal year at £79.6bn—ahead of the Office of Budget Responsibility's (OBR) March 2024 estimate of £73bn. Analysts at HSBC note that today's data and recent news flows around the upcoming Budget "point to risks of more tax rises and increases in spending" than in their central case. The analysts note that "lingering uncertainty about the fiscal and monetary outlook has weighed on gilts". They expect gilts may find support if the increased supply for 2024/25 comes in the region of £10-20bn, rather than the larger £40-50bn range being feared. This morning, 10Y gilt yields were slightly higher (+3bps) to trade at 4.16% and the pound was a touch weaker (-0.1%) against the dollar to trade at 1.2977 as markets await comments from Governor Bailey, as well as Deputy Governor Breeden and external MPC member Megan Greene.



Source: Bloomberg and IMF calculations

Japan



Japanese equities extended losses as political concerns mount. The Topix (-1.1%) fell to a three-week low, dragged down by financial sector stocks. Strategists view the market as still capped ahead of domestic earnings and the general election this weekend, Bloomberg reported. Nomura analysts expect that Japanese equities may face increased selling due to fears of a shift in economic policies and heightened political uncertainty if the LDP and Komeito fail to secure a majority, potentially leading to a split Diet and a weakened administration. They also note that nonresident investors in cash equities tend to become less eager to invest in Japanese equities following inconclusive elections, according to past experiences. Meanwhile, some investors are looking for positive catalysts such as a weaker yen, signs of resilience in 3Q earnings reports, and reduced zombie companies, which could pave the way for healthier enterprises amid a labor shortage. Latest data indicate bankruptcies surged to the highest in a decade in Japan, with over 5,000 cases reported between April and September, as rising financing costs following a pivot in the Bank of Japan's monetary policy led to the insolvency of highly leveraged, unproductive firms. The yen (-0.1%) softened past 151/US$ amid a stronger US dollar, as traders scaled back bets on the Fed's rate cuts.

Emerging Markets back to top

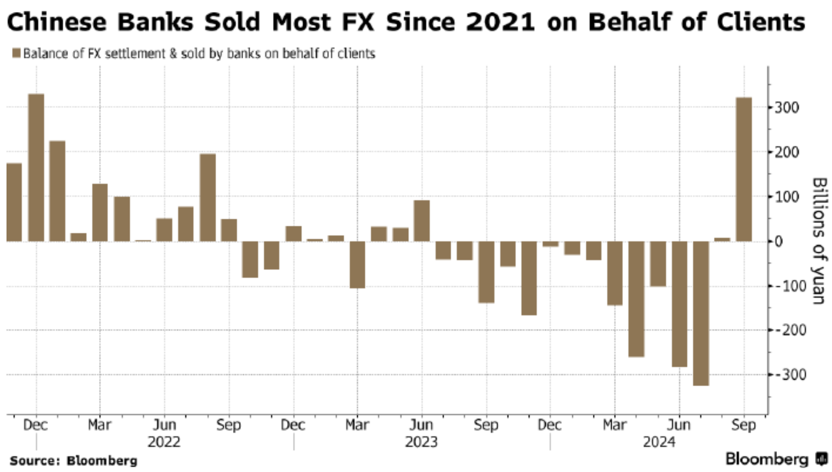
EMEA equities and currencies were mostly lower this morning, reflecting risk-off sentiment. CEE equities were in the red territory, with Poland underperforming (-1.2%), while CEE currencies were little changed against the euro with the Hungarian forint slightly higher (+0.1%) to trade at HUF400.71/€ ahead of today's policy decision where the National Bank of Hungary is expected to keep its policy rate unchanged at 6.50%. Equities dropped (-1.1%) in South Africa reflecting the broader risk off tone in markets. In Türkiye the lira was stable against the dollar at 34.25/$ today.

Most Asian equities declined and most Asian currencies softened as investors anticipate slower rate cuts by the Fed due to inflation and fiscal concerns. Equities in Korea (-1.3%) and Thailand (-0.9%) underperformed, while the currency depreciation was led by the Philippine peso (-0.5%). **Long-term government bond yields rose in Asia**, tracking the US Treasury yields, led by 10y yields in Singapore (+9.9 bps) and Korea (+7.1 bps).

Latin America currencies mostly weakened amidst broader US dollar strength and weakened risk sentiments ahead of the US presidential elections. The Mexican Peso led losses, depreciating -0.5% against the US dollar and touched a six-week low during the trading session. Mexico's benchmark bonds also led regional bond declines, with its 10-year local currency government bond yield rising +17.5bps. Regional equities also traded marginally lower, with the MSCI LATAM index declining -0.9%. Paraguay central bank kept policy rates at 6.0%, as widely expected.

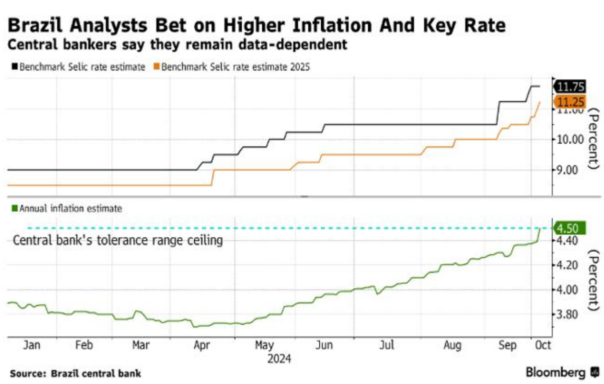
China

Chinese firms sold the most foreign exchange to banks in September since December 2021. Official data released today show that banks' net foreign exchange settlement for clients surged to US$45.4 bn, with a record high cross-border payment surplus of US$60.2 bn. This reverses their large purchases of US dollars over the past year, indicating growing confidence in the RMB's stability. The shift followed reduced returns on US dollar assets from Fed rate cuts and a stimulus-induced asset rally in China, confirming that the recent strengthening of the RMB was supported by a rising foreign currency settlement ratio and capital inflows. This is evident from a record surge in foreign exchange settlements under securities investments in September, with net settlements reaching nearly US$9.9 bn. Analysts caution about the sustainability of these inflows in the coming months, given that the RMB has recently weakened, the rally in Chinese stocks has slowed, and concerns over potential risks from the US election may resurface. Today, the RMB depreciated (-0.1%). Chinese equities gained (CSI 300: +0.6%), led by consumer goods and services stocks.



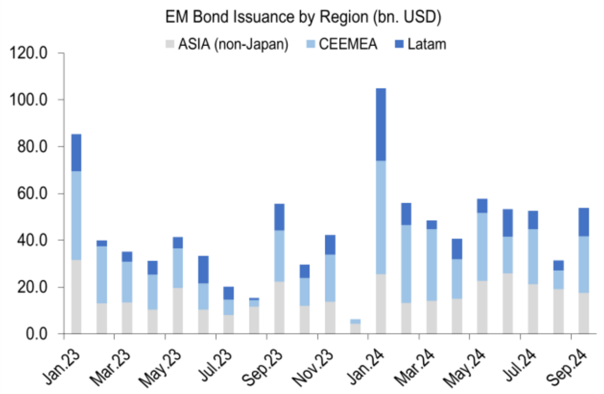
Brazil

High policy rates are negatively impacting equity valuations. Analysts raised their 2025 selic rate expectations for the second consecutive week to 11.25% (*left chart*), driven by worsening inflation expectations, a tight labor market, and increased fiscal spending. According to Bloomberg analysts, these higher rates could prompt investors to shift from stocks to bonds, which are offering double-digit yields. Morgan Stanley analysts also noted that equity valuations are likely to remain "cheap" until policy rates decline. The benchmark equity index, Ibovespa is among the ten worst-performing indices this year (*right chart*), with foreign investors withdrawing BRL 1.6 bn in September, and an additional $2.06 bn so far this month, marking outflows in eight of the ten months this year. The index currently trades at about 7.7x estimated earnings, compared to 12.2x for the broader MSCI Emerging Market index.

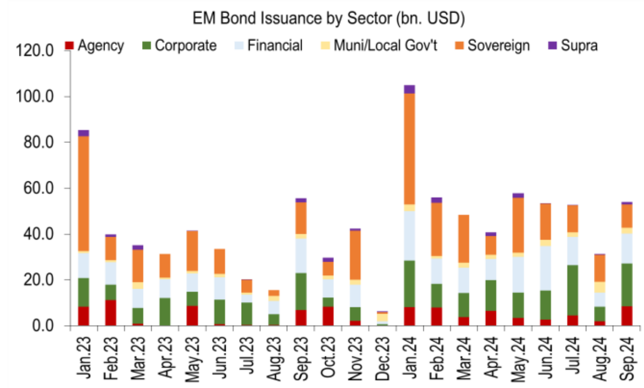


Emerging Market Bond Issuance

EM international bond issuances were robust in the past week, despite**.** Issuances stood at $13.9 bn for the week ending on October 18th, and cumulatively $40.8 bn month-to-date, according to data compiled by Bond Radar**.** MTD October issuances has exceeded issuances for the whole of October 2023 ($29.6 bn). Issuances were primarily from corporates ($5.3 bn), sovereigns ($3.3 bn) and financials ($3.2 bn). On regional distribution, CEEMEA issuers constituted most of the issuances ($6.0 bn), led by Poland's dual-tranche EUR issuances (€1.75bn 7-year and €1.25bn 15-year), which was met by record high demand (€15bn), according to the Finance Ministry, with strong interest seen from institutional investors. With these issuances, the Finance Ministry noted that Poland borrowing plan for 2024 is "practically completed" for the Euro and USD markets and will now focus on next year's financing needs. The year-to-date aggregate issuances stood at $572bn and exceeded full year 2023's level of $435 bn.



Sources: Bond Radar and IMF staff calculations



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Global Financial Indicators

10/22/24 8:11 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5,854	-0.2	-0.1	2.7	38.6	23
Europe		4,930	-0.2	-0.3	1.2	22.5	9
Japan		38,412	-1.4	-3.8	1.8	23.9	15
China		3,958	0.6	2.6	23.2	13.9	15
Asia Ex Japan		78	-0.9	-1.5	5.3	26.3	17
Emerging Markets		46	-0.7	-1.2	4.4	23.9	13
Interest Rates					basis points		
US 10y Yield		4.2	0	17	46	-72	32
Germany 10y Yield		2.3	4	10	11	-57	30
Japan 10y Yield		1.0	2	1	13	14	37
UK 10y Yield		4.2	2	0	26	-49	62
Credit Spreads					basis points		
US Investment Grade		122	1	1	-7	-41	-12
US High Yield		335	-2	-8	-26	-141	-50
Exchange Rates					%		
USD/Majors		103.9	-0.1	0.6	3.2	-2.1	3
EUR/USD		1.1	0.1	-0.6	-2.6	1.4	-2
USD/JPY		150.8	0.0	1.1	5.0	0.7	7
EM/USD		45.1	0.1	-0.4	-2.2	-3.1	-6
Commodities					%		
Brent Crude Oil ($/barrel)		74.9	0.8	0.9	1.6	-9.9	0
Industrials Metals (index)		151.0	1.0	0.9	3.4	10.9	6
Agriculture (index)		55.6	-0.1	-0.6	-0.5	-15.3	-11
Implied Volatility					%		
VIX Index (%, change in pp)		19.2	0.9	-1.4	3.1	-2.5	6.8
Global FX Volatility		8.7	0.0	0.2	0.3	0.4	0.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		88	-1	-2	-10	-60	-15
Italy		122	-1	-2	-12	-81	-45
Portugal		44	-2	-3	-12	-28	-19
Spain		70	-2	-2	-9	-41	-26

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

Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
10/22/2024	Level		Change (in %)					Level		Change (in basis points)				
8:11 AM	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		7.12	0.0	0.0	-1.0	2.6	-0.3		2.0	3	6	13	-78	-54
Indonesia		15560	-0.4	0.1	-2.3	2.4	-1.0		6.7	4	-2	24	-42	20
India		84	0.0	0.0	-0.6	-1.1	-1.0		7.2	3	11	22	-61	-4
Philippines		58	-0.5	0.0	-3.3	-1.8	-4.3		4.9	7	9	16	-92	-75
Thailand		34	-0.2	-0.4	-1.5	9.0	1.9		2.4	6	-4	9	-103	-25
Malaysia		4.33	-0.5	-0.4	-2.9	10.8	6.1		3.8	5	4	14	-27	11
Argentina		983	-0.3	-0.3	-1.8	-64.4	-17.8		39.7	55	-70	-127	-6656	-4673
Brazil		5.70	0.0	-1.8	-2.8	-12.0	-14.7		12.7	-7	30	23	76	231
Chile		950	0.3	-0.7	-2.9	-1.7	-7.4		5.1	0	12	43	-108	18
Colombia		4276	-0.1	-1.6	-2.8	-1.2	-9.9		8.4	0	37	88	-92	78
Mexico		19.95	0.1	-1.3	-2.6	-9.1	-14.9		9.5	0	38	92	-8	106
Peru		3.8	-0.3	-0.2	0.3	2.6	-1.6		6.6	14	######	36	-119	-10
Uruguay		41	0.2	0.0	2.0	-3.9	-6.3		9.6	0	5	-61	-22	12
Hungary		370	0.3	-0.7	-4.0	-3.3	-6.2		6.7	-1	42	75	-97	89
Poland		3.99	0.1	-1.2	-3.7	4.7	-1.4		5.1	4	23	56	-19	60
Romania		4.6	0.1	-0.6	-2.6	1.3	-2.0		6.6	1	4	12	-33	41
Russia		96.6	0.0	0.5	-3.6	-2.1	-7.3							
South Africa		17.6	0.2	0.3	-1.3	7.8	4.4		8.9	3	13	45	-111	-19
Türkiye		34.25	0.0	-0.1	-0.3	-18.0	-13.8		29.9	3	18	145	63	311
US (DXY; 5y UST)		104	-0.1	0.6	3.2	-2.1	2.6		4.00	1	15	50	-86	15

	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		3,958	0.6	2.6	23.2	13.9	15.3		113	-3	-11	-59	-45
Indonesia		7,789	0.2	2.1	0.2	15.5	7.1		83	-5	-17	-48	-13
India		80,221	-1.1	-2.0	-5.5	24.2	11.0		93	-2	-16	-46	-23
Philippines		7,413	0.1	-0.6	-0.1	21.8	14.9		68	-6	-16	-40	-12
Thailand		1,470	-1.2	0.4	1.5	5.1	3.8		0	0	0	0	0
Malaysia		1,643	-0.2	0.0	-1.4	14.2	12.9		70	-4	-13	-25	-15
Argentina		1,820,705	-0.1	0.9	-0.1	127.4	95.8		1097	-14	-218	-1321	-816
Brazil		130,362	-0.1	-0.5	-0.5	15.2	-2.8		205	-5	-15	-17	-10
Chile		6,671	0.4	1.7	5.3	18.5	7.6		107	-3	-12	-35	-18
Colombia		1,356	-0.4	2.1	2.7	21.4	13.5		304	-6	-8	-46	33
Mexico		52,815	-0.4	1.6	1.2	9.4	-8.0		297	0	-19	-68	-37
Peru		30,674	-0.3	0.3	4.7	38.3	18.2		133	-5	-7	-30	-11
Hungary		74,023	0.0	-1.0	1.2	31.4	22.1		139	-4	-13	-64	-10
Poland		81,309	-0.9	-2.3	-0.6	18.9	3.6		99	-5	-11	-19	2
Romania		17,412	-0.2	-0.5	-1.3	24.4	13.3		180	-6	-16	-40	-21
South Africa		86,322	-0.9	0.4	3.0	23.0	12.3		271	4	-14	-121	-37
Türkiye		8,693	0.4	-1.9	-12.2	15.7	16.4		275	4	-7	-128	-39
EM total		46	-0.2	-1.2	4.4	23.9	13.4		384	0	-9	-25	39

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

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