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Risk sentiment rises as bond yields decline

Most sovereign bond yields are falling and equities are moving higher this morning. While the overall market reaction to European PMIs this morning was mixed, sentiment is turning more positive with European equities gaining over 0.5% and US equity futures pointing to a similar gain. While German PMIs outperformed expectations those for France came in somewhat weaker than expected. Despite the mixed results, European 2-year yields are about 4 bp lower on the day, and market expectations continue to price nearly even odds of either a 25bp or 50bp cut at the ECB's next meeting in December. US yields are also lower with the 2-year and 10-year treasury yields around 3bp lower despite rising slightly after this morning's weekly jobs report. That marks a deviation from the recent trend as US yields have steadily risen since mid-September. In contrast, yields on UK bonds are higher this morning on rising concerns ahead of next week's budget. Meanwhile, in earnings announcements, Tesla reported stronger than expected results after markets closed yesterday, and shares in the company are over 13% higher in pre-market trading.

Key Global Financial Indicators

Last updated: 10/24/24 8:33 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5797	-0.9	-1	1	36	22
Eurostoxx 50		4958	0.7	0	0	22	10
Nikkei 225		38143	0.1	-2	1	22	14
MSCI EM		45	-0.6	-1	-1	21	12
Yields and Spreads			bps				
US 10y Yield		4.21	-3.2	12	49	-61	33
Germany 10y Yield		2.27	-3.8	6	12	-56	24
EMBIG Sovereign Spread		344	2	-6	-28	-115	-39
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		45.1	0.1	0	-3	-3	-6
Dollar index, (+) = \$ appreciation		104.1	-0.3	0	4	-2	3
Brent Crude Oil (\$/barrel)		75.5	0.7	1	0	-14	-2
VIX Index (% change in pp)		18.7	-0.5	0	3	0	6

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

Mature Markets

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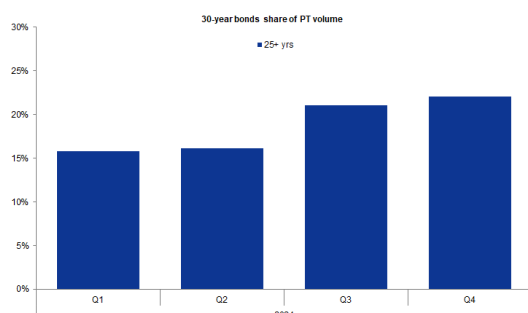
United States

In this morning's data release, jobless claims sent a mixed picture with initial jobless claims dropping by 15k from a prior (and expected) 242k, and ongoing claims, a proxy for the number of people receiving benefits, increasing above expectations to levels not seen in almost three years. The drop comes amid volatility in data from continued furloughs and disruptions through Boeing's supply chain, as well as the lingering effects of hurricanes Helene and Milton. Stocks remained on their trend higher, while 10-yr yields edged upwards.

Long-term US investment grade credit spreads to remain in check. According to Goldman Sachs analysts, the slowing of long-term Treasury supply creates a duration gap that is currently filled by corporate credit. Demand for longer-term bonds comes from asset managers, notably life insurers and pension funds, who favor holding long-term assets to match their longer-term liabilities. Corporate issuers are willing to accommodate the demand, as long as the back-end of the yield curve ensures reasonable cost of issuance. Until recently, with long-term rates relatively flat, demand and supply were balanced to keep credit spreads in check. The recent rise of Treasury yields will put pressure on the cost of issuance and may reduce supply, but may not deter demand much. Credit spreads are therefore expected to remain in a tight range.

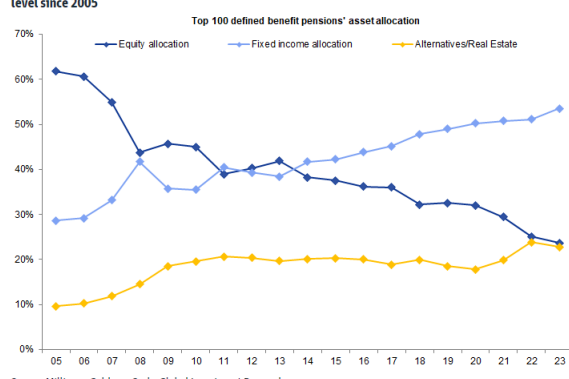
Exhibit 3: There has been a notable increase in volumes of portfolio trades involving 30-year bonds over the past few months

Quarterly volumes on client buy portfolio trades involving 30-year bonds (minimum of \$100k)



Source: TRACE, Goldman Sachs Global Investment Research

Exhibit 5: The fixed income allocation of the top 100 defined benefit pensions finished 2023 at its highest level since 2005



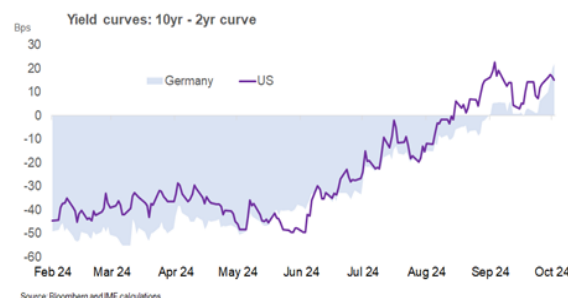
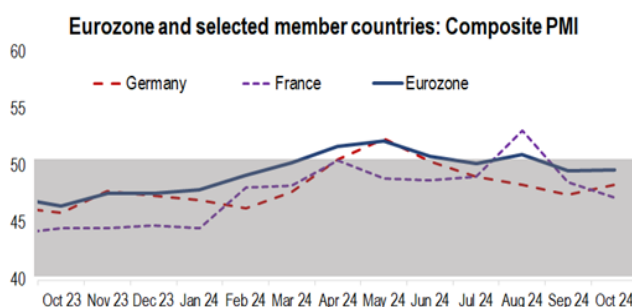
Source: Milliman, Goldman Sachs Global Investment Research

Wholesale CBDC projects are growing over retail initiatives. According to JP Morgan analysis, retail CBDC initiatives (for public use) are largely dormant due to privacy concerns and the risk of bank runs from wider adoption. For example, privacy concerns and widespread adoption of market alternatives (like WeChat Pay or Alipay) have restricted the adoption of China's e-CNY, perhaps the largest scale CBDC initiative so far. Privacy issues have also paused retail CBDC initiatives in the Philippines and Denmark, although smaller countries like Jamaica and the Bahamas use retail CBDCs to increase financial inclusion. Instead, Europe is focusing on wholesale CBDCs (designed for financial institutions), which are easier to integrate with existing payment systems. Initiatives like the BoE's Project Meridian in cooperation with the BIS, the ECB's blockchain-based interbank settlements, and the Swiss National Bank's digital Swiss franc for blockchain-based bond transactions indicate growing interest in wholesale CBDCs.

Europe

European equities were trading higher this morning following positive earnings surprises. The Stoxx 600 index was higher (+0.5%) with all sectors in the green and bourses across the region also in positive territory. The euro was firmer (+0.2%) against the dollar in early morning trade although the currency is around 2.2% weaker against the greenback year-to-date. Elsewhere, the 10Y Italian BTP spread over equivalent tenor bunds was broadly unchanged at 121bp, while the 10Y French OAT-Bund spread was stable at around 73bp.

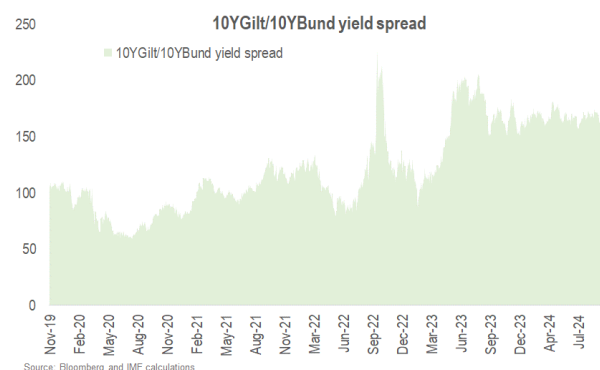
Mixed market reaction to flash October PMI data. The much-anticipated flash October PMI data painted a mixed picture for two of Europe's largest economies. The October flash French composite PMI indicator came in weaker than expected at 47.3 against 48.9 expected and 48.6 prior, while the opposite was true in Germany, where the composite indicator printed above expectations at 48.4 (47.6 expected, 47.5 prior). Meanwhile, the October flash composite PMI indicator for the Eurozone ticked up to 49.7, in line with expectations, and up slightly from 49.6 in the prior month. Analysts at Citi had noted that a downside surprise to today's data would likely strengthen the case for a pickup in the pace of ECB easing, more than an upside surprise would weaken it, given that last month's weaker-than-expected flash PMI reading likely influenced President Lagarde's dovish remarks at the European Parliament on September 30. In the end, the market reaction to this morning's data was mixed with money markets initially adding to easing expectations following the release of the French PMI data but paring the moves slightly after German data beat expectations. In addition, markets appear to be digesting a raft of comments from ECB policymakers with some officials signaling potentially larger rate cuts amid growing downside risks to growth and inflation with others favoring a more gradual approach to easing. This morning, 2Y bund yields declined by around 5bp to 2.05% and are around 13bp lower than the highs seen on Monday. Meanwhile, 10Y bund yields were around 3bp lower at 2.27% and relatively unchanged since Monday, with the curve continuing to bull steepen. Money market expectations for the upcoming December meeting are pricing around 36bp of easing (around a 44% chance of a 50bp rate cut), down slightly from the 39bp that was priced following last week's ECB policy meeting.



United Kingdom

Budget uncertainty continues to weigh on gilts.

Analysts at Bloomberg point to looming uncertainty over next week's budget combined with some uncertainty over the monetary policy outlook beyond the BoE's November meeting as factors that appear to be weighing on gilts. The analysts note that gilts stand out as underperformers relative to European peers with the 10Y gilt-bund spread approaching the highs of the year at almost 200bp. This morning, gilt yields were higher across all tenors with the 2Y gilt yield up 2bp to 4.11% and 10Y gilt yields around 3bp higher at 4.23%. Separately on the data front, flash October PMI data came in below expectations with the composite indicator printing at 51.7 (52.5 expected, 52.6 prior) and both the services and manufacturing sub-indices also came in below expectations. Money markets are fully pricing in a 25bp reduction in the bank rate at the November meeting, with around 15bp of easing expected at the December meeting. Sterling was trading higher (+0.4%) against the dollar.

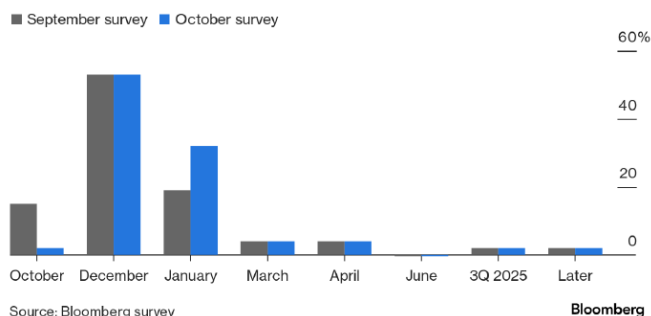


Japan

The Japanese yen is factoring in risks associated with political uncertainties both domestically and in the US. While forming an entirely new Japanese government is not a baseline for most analysts, investors are concerned about the risk that the LDP and Komeito may need to bring an opposition party into their coalition if they lose their majority. Some of these parties have made campaign pledges that could potentially increase the fiscal deficit, putting depreciation pressure on the yen.

Meanwhile, investors also caution that fiscal risks may increase in the US if Donald Trump wins the presidential election, making it unlikely for US long-term rates to decline. BNY and Fivestar Asset Management analysts expect persistent weakness in the yen back to 155/USD, which could be aggravated by the attractiveness of Japanese assets and possible USD carry trade hedging, Bloomberg reported. Bank of Japan (BoJ) Governor Ueda hinted that more rate hikes are coming, warning that proceeding with monetary policy normalization too cautiously amid uncertainty could lead to prolonged low-rate expectations and potentially problematic speculative positions. Nomura strategists suggest that the BoJ may consider raising interest rates by December if the yen tumbles further following Sunday's election. Today, the yen appreciated 0.3% following FM Katsunobu Kato's verbal intervention that he sees one-sided, rapid moves in currency markets. Japanese equities ended with small gains (Nikkei 225: +0.1%) after a dip in early trading as the October PMI pointed to weakening growth momentum. Manufacturing PMI stayed in a contractionary trajectory for the fourth consecutive month (49.0, prior: 49.7) and services PMI (49.3, prior: 53.1) fell to its lowest since early 2022.

Most BOJ Watchers Expect Another Rate Hike by January



Emerging Markets

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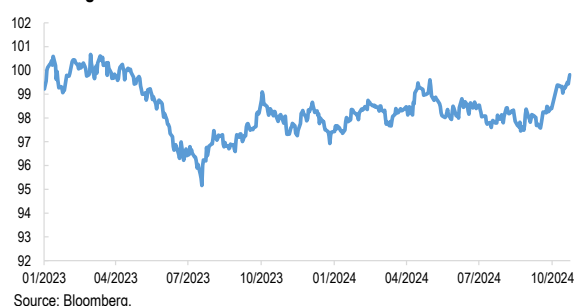
Most Asian currencies advanced (EM Asia: +0.2%). Some strategists believe the appreciation of the RMB (+0.2%) helped support other Asian peers amid persistent US election risk, with the Indonesian rupiah (+0.3%) and Thai baht (+0.3%) leading the gains. Asian equities were mostly down (EM Asia: -1.0%), led by equities in China (-1.1%) and Hong Kong SAR (-1.3%). In Korea, Q3 GDP disappointed, with y/y growth slowing to +1.5% from +2.3% (expected: +2.0% y/y). JP Morgan analysts expect one more 25bp cut to bring the policy rate down to 2.5% by July 2025 from the current 3.25%. **EMEA equities and currencies mostly edged higher this morning**, partly rebounding from this week's losses. CEE equities were up (by about 0.3%) across the main countries of the area, with the stock market little changed in Romania, while CEE currencies edged slightly higher (by around 0.1%) against the euro. Equities rebounded (+0.7%) today in South Africa, where the rand regained ground (+0.6%) against the dollar. In Türkiye the lira was stable against the dollar and equities gained 1.7%. **Latin America assets were mixed on Wednesday.** The Mexican peso ended the day marginally stronger (+0.5%) against the Dollar although its one-month implied volatility surged above 22.4%, the highest since April 2020 before closing slightly lower (21.6%). In contrast, the Colombian Peso weakened 1.2% amidst fiscal concerns. Colombian equities also led declines, with the benchmark COLCAP index declining 1.7% while its 10-year local currency govt bond yields rose 14 bp.

China

The RMB strengthened against the currency basket despite pressure from the US dollar. A gauge compiled by Bloomberg on the RMB against its major counterparts suggests the RMB appreciated to its strongest level in 17 months. Mizuho strategists view the outperformance of the RMB among regional peers as a result of increased resilience amid the "Trump trade," indicating that China's policy shift is supporting market sentiment. They also note that the RMB fixing against the dollar has roughly aligned with survey

results since September, indicating that the RMB's strong performance is not driven by the central parity rate. Reportedly, some prominent investors estimate that the option market is pricing an overnight volatility premium of 23 for the RMB, or a 1% move after election day in the US. However, risk reversals point to only a slightly bearish bias toward the RMB, possibly reflecting the anticipation of central bank support. Today, the RMB appreciated (+0.2%) to 7.11/USD. Some traders note that state banks increased dollar sales through one-year swaps yesterday, while foreign banks and local joint-stock lenders bought more dollars via one-year swaps, balancing the selling pressure. Chinese equities declined (CSI 300: -1.1%).

Bloomberg CFETS RMB Index Tracker



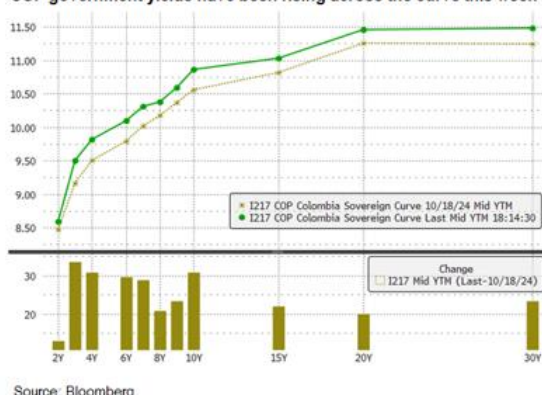
Options Traders Are Only Slightly Bearish on Yuan



Colombia

Colombian bonds sold off amidst concerns over the fiscal outlook. Yields on local currency government bonds surged (*left chart*) this week, as Congress debates a proposal for budget decentralization. While the proposed bill aims to strengthen regional economies, official estimates suggest it could increase national debt by nearly 15% of GDP over the next decade (*right chart*). If enacted, the proposal would mandate that the government allocate 46.5% of its revenue to cities and provinces by 2036, up from the current 26%. Central bank co-director Roberto Steiner had earlier warned of a potential "fiscal disaster," emphasizing the "gigantic risks" that the proposed bill poses to macroeconomic stability and monetary policy. Meanwhile, Interior Minister Juan Fernando Cristo observed that recent criticism is "excessively Bogota-centric" and said that the government is still open to some changes to the bill. Since 2021, Colombia's fiscal situation has deteriorated significantly, failing to achieve consolidation back to pre-pandemic levels. That has helped lead to the loss of its investment-grade rating by both Fitch and S&P.

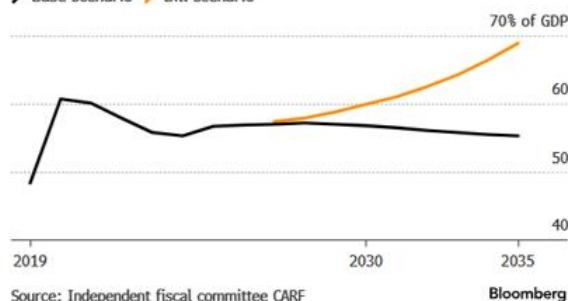
COP government yields have been rising across the curve this week



Bill to Decentralize Colombian Economy Risks Debt Build-up

Debt to GDP forecast to soar if bill passes

Base scenario Bill scenario



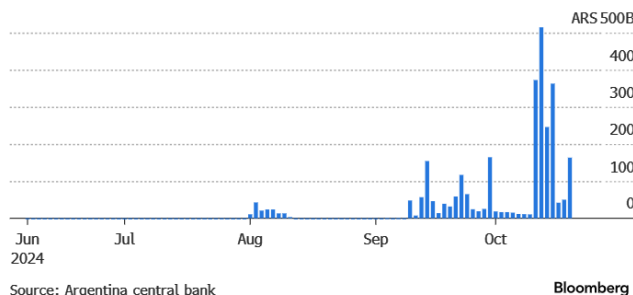
Argentina

Demand for domestic liquidity suggests early signs of recovery in Argentina's economy. The recent surge in local currency demand has prompted banks to seek pesos, leading the central bank to revive its liquidity window for the first time since 2018. Activity in the repo market has also surged, with banks borrowing over \$1.6 billion in one-day term loans. The growing demand for peso loans indicates a modest

economic recovery, even as the country remains in recession. Declining interest rates, now down to 40%, from a record high of 133%, are contributing to the increased demand for credit. Additionally, the central bank's support for banks has intensified, with active repo loans reaching their highest levels since the financial crisis (*chart below*). Bloomberg analyst noted that the central bank reopened its liquidity facility to ensure domestic banks can access peso liquidity without being forced to sell their treasury bond holdings.

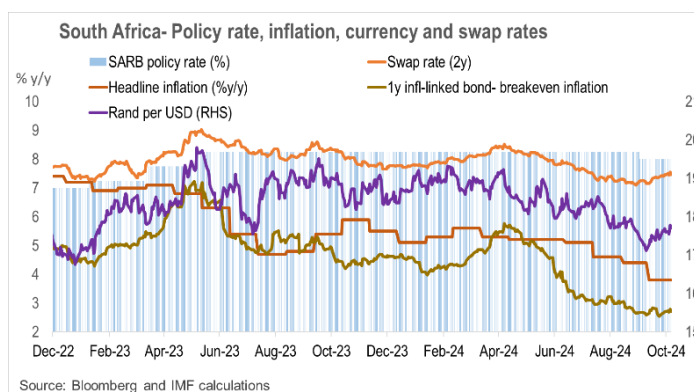
Central Bank Support for Banks Jumps for the First Time in Six Years

Amount of active repo loans highest since 2018 financial crisis



South Africa

The rand traded higher (0.5%) against the dollar this morning, at ZAR17.69/\$, and 10y domestic currency government bond yields declined by -10bp to 10.65% after headline inflation softened in line with expectations in South Africa. Headline inflation printed at 3.8%/y/y in September, as expected, declining from 4.4%/y/y in August, while core inflation was unchanged at 4.1%/y/y, also in line with expectations, although regaining some speed on a sequential basis (0.3%/m/m in September against no growth in August). Inflation was driven lower by a drop of retail gasoline prices (-3.8%/m/m), that declined further in October feeding expectations of even lower inflation (JP Morgan forecasts 3%/y/y) at its next reading. Services inflation was also a touch lower to 4.4%/y/y in September, from 4.5%/y/y in August. JP Morgan expects the central bank (SARB) to proceed in the easing cycle started in September (25bp cut took the policy rate to 8%) and to deliver another 25bp cut in November followed by two further reductions taking the policy rate to 7.25% by mid-2025. Goldman Sachs also forecasts a further decline of headline inflation to 3%/y/y by the end of 2024, persistently undershooting SARB's 4.5% target range mid-point throughout 2025. Crédit Agricole also expects the SARB to cut again by 25bp to 7.75% in November but warns that the pace of easing from that point could be impacted by monetary policy and political developments in the US. The rand has depreciated by 2.3% against the dollar MTD.



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (Senior Financial Sector Expert-New York Representative), Benjamin Mosk (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Mustafa Oguz Caylan (Research Officer), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Senior Research Officer), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Sonal Patel (Senior Financial Sector Expert-London Representative), Silvia Ramirez (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Tyler (Administrative Coordinator) are responsible for the word processing and production of this monitor.

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Global Financial Indicators

10/24/24 8:33 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		5,823	-0.9	-0.3	1.6	37.1	22
Europe		4,958	0.7	0.2	0.3	21.9	10
Japan		38,143	0.1	-2.0	0.7	22.0	14
China		3,929	-1.1	3.7	15.5	12.1	15
Asia Ex Japan		77	-0.5	-0.6	-0.1	23.6	16
Emerging Markets		45	-0.6	-0.7	-0.7	21.5	12
Interest Rates			basis points				
US 10y Yield		4.2	-3	12	49	-61	33
Germany 10y Yield		2.3	-4	6	12	-56	24
Japan 10y Yield		1.0	-2	-1	15	11	35
UK 10y Yield		4.2	4	15	30	-30	70
Credit Spreads			basis points				
US Investment Grade		124	1	4	-5	-34	-10
US High Yield		342	3	5	-24	-121	-43
Exchange Rates			%				
USD/Majors		104.1	-0.3	0.3	3.7	-2.0	3
EUR/USD		1.1	0.1	-0.4	-3.5	1.9	-2
USD/JPY		152.2	-0.4	1.3	6.3	1.5	8
EM/USD		45.1	0.1	-0.1	-2.7	-3.5	-6
Commodities			%				
Brent Crude Oil (\$/barrel)		75.5	0.7	1.4	1.4	-7.3	1
Industrials Metals (index)		151.5	0.7	1.9	0.8	10.7	6
Agriculture (index)		56.6	0.5	1.1	-1.6	-13.6	-9
Implied Volatility			%				
VIX Index (% change in pp)		18.7	-0.5	-0.4	3.3	-0.3	6.3
Global FX Volatility		9.2	0.0	0.5	0.8	1.1	1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		86	-1	-1	-12	-57	-17
Italy		121	-1	0	-13	-79	-47
Portugal		43	-1	-3	-13	-29	-20
Spain		69	-1	-1	-9	-42	-28

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

Emerging Market Financial Indicators

Last updated: 10/24/2024 8:34 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	1 Day	7 Days	30 Days	12 M		
	vs. USD		(+)= EM appreciation						% p.a.						
China		7.12	0.2	0.1	-1.2	2.8	-0.2		2.0	1	10	16	-75	-51	
Indonesia		15584	0.3	-0.5	-2.5	1.7	-1.2		6.8	-3	9	31	-50	28	
India		84	0.0	0.0	-0.5	-1.1	-1.0		7.2	0	11	21	-62	-5	
Philippines		58	0.0	-0.3	-3.0	-2.1	-4.5		4.8	-11	-2	-11	-103	-86	
Thailand		34	0.5	-1.3	-2.9	7.5	1.8		2.4	-2	4	5	-95	-27	
Malaysia		4.35	0.1	-0.9	-4.4	10.0	5.7		3.9	0	8	14	-27	13	
Argentina		985	-0.1	-0.5	-2.0	-64.5	-17.9		39.6	93	-29	2	-6683	-4680	
Brazil		5.71	-0.4	-0.9	-4.4	-12.5	-15.0		12.8	8	9	63	102	243	
Chile		942	0.5	0.5	-3.4	-1.5	-6.5		5.1	-3	11	42	-105	20	
Colombia		4323	-1.3	-1.3	-3.8	-2.1	-10.3		8.6	0	30	102	-85	92	
Mexico		19.80	0.2	0.2	-2.4	-7.8	-14.3		9.6	3	31	100	1	114	
Peru		3.8	-0.1	0.4	0.6	3.0	-1.3		6.7	2	25	40	-105	-1	
Uruguay		42	-0.2	0.4	1.0	-4.4	-6.5		9.6	-6	-8	-63	-29	6	
Hungary		373	0.2	-0.9	-5.5	-3.0	-6.9		6.6	4	24	73	-94	87	
Poland		4.02	0.2	-1.1	-5.4	4.8	-2.2		5.1	-9	2	52	-8	58	
Romania		4.6	0.2	-0.3	-3.4	1.8	-2.1		6.6	1	8	16	-31	44	
Russia		96.8	-0.8	0.5	-4.0	-3.3	-7.6								
South Africa		17.7	0.4	-0.1	-2.5	7.5	3.7		9.0	-7	7	47	-96	-16	
Türkiye		34.25	0.1	-0.3	-0.4	-17.9	-13.8		30.1	9	65	190	106	338	
US (DXY; 5y UST)		104	-0.3	0.3	3.7	-2.0	2.8		4.02	-4	12	55	-80	17	

	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		3,929	-1.1	3.7	15.5	12.1	14.5		111	-3	-13	-60	-47	
Indonesia		7,717	-0.9	-0.2	-0.3	12.9	6.1		93	2	-8	-46	-3	
India		80,065	0.0	-1.2	-6.0	25.0	10.8		93	0	-16	-45	-23	
Philippines		7,284	-1.1	-1.6	-1.1	20.3	12.9		80	3	-5	-37	0	
Thailand		1,461	-0.7	-1.6	-0.1	4.2	3.2		0	0	0	0	0	
Malaysia		1,632	-0.6	-0.6	-2.5	13.2	12.2		70	-1	-13	-26	-15	
Argentina		1,774,319	-1.8	-0.1	0.0	171.2	90.8		1096	39	-215	-1519	-817	
Brazil		129,233	-0.6	-1.9	-2.2	13.6	-3.7		211	1	-11	-9	-4	
Chile		6,687	0.2	1.8	3.7	20.3	7.9		112	1	-8	-32	-13	
Colombia		1,322	-1.7	-1.8	-1.0	19.5	10.6		313	8	0	-31	42	
Mexico		52,142	-0.4	-0.7	-2.8	8.0	-9.1		303	3	-12	-66	-31	
Peru		30,723	0.0	0.9	3.1	38.3	18.3		138	0	-2	-26	-6	
Hungary		74,129	0.4	-1.4	1.5	31.6	22.3		145	-2	-9	-65	-4	
Poland		81,030	-0.1	-1.1	-2.8	17.1	3.3		102	-6	-10	-26	5	
Romania		17,451	0.0	0.0	-1.1	23.1	13.5		187	0	-10	-36	-14	
South Africa		87,279	0.9	0.8	3.0	23.7	13.5		282	12	-6	-116	-26	
Türkiye		8,895	2.1	-1.2	-11.3	11.3	19.1		275	3	-11	-127	-39	
EM total		45	0.0	-0.7	-0.7	21.5	12.5		390	9	-6	-25	45	

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

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