



- US election sweep by one party viewed as worst outcome for interest rates ([link](#))
- “Trump Trade” thrives as investors predict Republican victory in US election ([link](#))
- Treasury-bund spread widens ahead of election ([link](#))
- Markets expect inflation in Brazil to rise above central bank target ([link](#))
- Indian small cap stocks in correction amidst slowing earnings and high inflation ([link](#))

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Markets hold steady ahead of key risk events

Stocks in Europe were slightly higher and US equity index futures were flat as market participants prepare for a potentially volatile week. Most stocks in Asia extended yesterday's global rally, with the notable exception of China, where the CSI 300 was down 1%. The US data calendar could have a large impact on markets this week, with data on GDP, PCE inflation and jobs due to be released in the next few days. Corporate earnings reports continue to roll in, with the latest from McDonald's showing weaker than expected sales. On the other hand, HSBC rallied on stronger than expected earnings. Five of the Magnificent Seven US technology stocks are scheduled to report their earnings this week, starting with Google parent Alphabet later today. Tesla has already reported much stronger than expected earnings last week. Meanwhile, the US election next Tuesday remains the main focus as polls indicate that the race is still too close to call.

Key Global Financial Indicators

Last updated: 10/29/24 7:57 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		5824	0.3	-1	1	41	22
Eurostoxx 50		4982	0.2	1	-2	24	10
Nikkei 225		38904	0.8	1	3	27	16
MSCI EM		45	0.4	-1	-3	24	13
Yields and Spreads			bps				
US 10y Yield		4.30	2.0	9	55	-53	42
Germany 10y Yield		2.33	4.1	1	19	-51	30
EMBIG Sovereign Spread		337	0	1	-30	-110	-46
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		44.9	0.1	0	-3	-4	-7
Dollar index, (+) = \$ appreciation		104.4	0.1	0	4	-2	3
Brent Crude Oil (\$/barrel)		72.3	1.3	-5	0	-20	-6
VIX Index (% change in pp)		19.9	0.1	2	3	-1	7

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

Mature Markets

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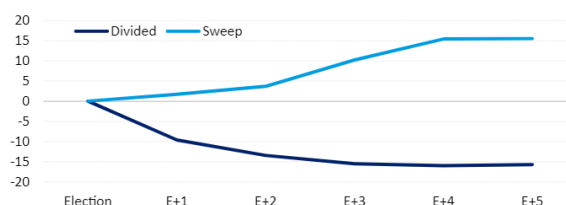
United States

Markets view an election sweep by one party as the worst possible outcome for interest rates. A divided government is likely to keep the policy outlook largely unchanged, but a unified government with one party holding the Presidency, the Senate and the House could force through significant policy changes

that markets find difficult to evaluate. History shows that a sweep by one party results in higher Treasury yields after the election, while a divided government outcome is more benign, with lower yields after the election. Sweeps tend to result in steeper yield curves, while divided government usually result in flatter yield curves. Contacts said that a sweep by the Democrats is the most feared result, on the assumption that it would lead to higher corporate income taxes and higher taxes on the wealthy. They noted that a sweep by the Republicans would also be problematic due to the risk of tariffs stoking inflation and forcing the Fed to tighten policy.

Exhibit 1: Average cumulative 10Y rate move across past 6 US elections (bps)

Sweep outcomes tend to see higher rates immediately after election, divided gov't the opposite



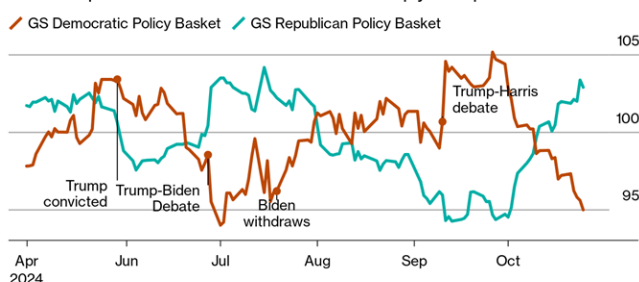
Source: Bloomberg; note: 2020 election uses changes after Dec 12 '20 (Supreme Court ruling date)

BoFA GLOBAL RESEARCH

The so-called “Trump Trade” is outperforming as investors forecast a Republican victory in the US Presidential election. Investors are using a variety of markets to express their expectations. Since September 15, around the time when the Democratic candidate’s odds looked strongest, 10-year Treasury yields have surged by nearly 60 bps on expectations that a second Trump administration would impose tariffs that would be inflationary for the US economy and force the Fed into a more hawkish posture. This has also resulted in a sharp appreciation of the dollar, particularly against emerging markets. Bitcoin is up almost 20% since September 15, as investors think a Republican administration will be more friendly to crypto markets. A number of banks have constructed baskets of indexes that they think will outperform in Republican and Democratic administrations. Goldman’s baskets illustrate the diverging performances of the two groups.

Red October

Stocks exposed to the election have moved sharply in Republicans' favor



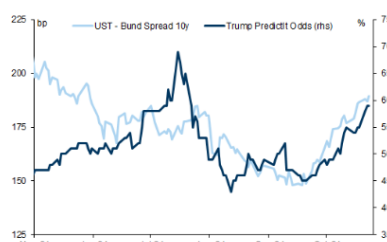
Source: Bloomberg WSL Election, Goldman Sachs

Bloomberg Opinion

US Treasury spreads to bunds have widened ahead of the US election, with the spread increasing as prediction market raise their expectations of a Trump victory. The potential for higher tariffs under a Trump administration has led market participants to expect a surge in inflation accompanied by higher Treasury yields and a more hawkish Fed. However, some contacts think the correlation between Trump’s victory odds and rising US spreads is spurious. They believe that wider spreads and higher Treasury yields are the result of much stronger economic data in the US relative to the euro area. They also think that the prediction markets are not reliable because of their limited liquidity and due to multiple news reports that a few large trades have affected their predictions. However, all agree that a divided government would be the best outcome for markets.

Exhibit 1 : US-EU rate spreads have widened alongside Trump probabilities

10y UST-Bund spread vs PredictIt Trump probability



Source: Goldman Sachs Global Investment Research, Bloomberg

Euro Area

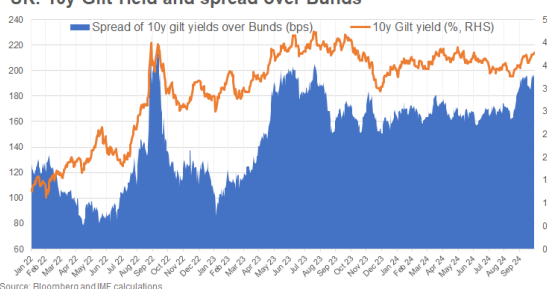
European equities were marginally higher while the euro was marginally weaker against the dollar this morning at around 1.08. The Stoxx 600 index (+0.1%) was trading in the green with the banking sector (+0.7%) outperforming. **HSBC's shares outperformed (+4.4%) after it reported better-than-expected earnings and also announced a \$3bn buyback.** Bloomberg analysts caution that news that Volkswagen's plans to close at least three German plants will likely weigh on European equity performance.

European government bond yields edged higher this morning with the 10y bund yield (+3bps) trading at around 2.31%. On the ECB front, ECB's de Guindos argued that while significant progress has been made to rein in inflation, victory cannot be declared just yet given the substantial risks that surrounds the outlook. ING analysts describe ECB's de Guindos' comments as leaning hawkish.

United Kingdom

Gilt yields continue to increase ahead of tomorrow's UK budget. Markets are focused on borrowing plans, with the median estimate of 16 primary dealers showing expectations for a £15bn increase in gilt issuance in the fiscal year according to Bloomberg. This would increase total borrowing to £293bn, the highest annual borrowing apart from 2020. Yesterday gilt yields continued to underperform German bunds with the 10y gilt yield (+2bps) at 4.25%, widening the spread over 10y bunds back to 197bps, close to the highest level seen over the past year. This morning gilt yields continued to increase with the 10y gilt yield at around 4.27% while the spread over bunds was slightly narrower at 196bps. On the currency front, **ING analysts argue that there is currently no political risk premium priced into sterling** and also highlight that the speculators are extensively long on the pound, according to the latest CFTC data. The pound was marginally stronger against the dollar this morning, trading at around 1.2980.

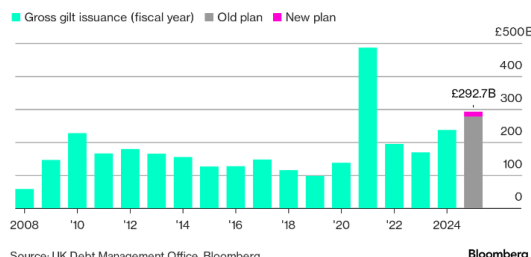
UK: 10y Gilt Yield and spread over Bunds



Source: Bloomberg and IMF calculations

UK Seen Boosting Planned Gilt Sales for This Fiscal Year

DMO forecast to add £15 billion to 2024-25 planned issuance



Source: UK Debt Management Office, Bloomberg

Bloomberg

Japan

The yen gained following hints of official intervention as it hovers near its weakest level in three months. Finance Minister Kato indicated that the government is monitoring currency market developments with a "heightened sense of urgency." The yen lost as much as 0.4% before paring its losses to ending the

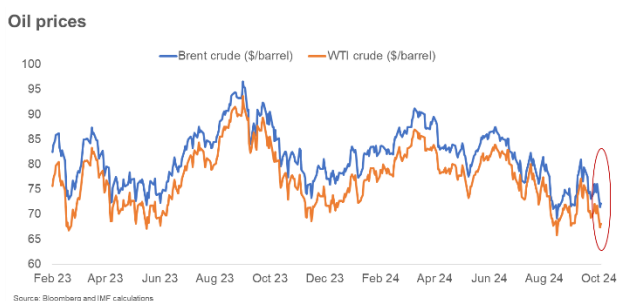
Asian session unchanged. At JPY 153.43 per dollar, it is at its weakest level since the end of July. Market observers noted that short yen positions have been building for some time, bolstered by expectations for higher Treasury yields and the attendant support for the dollar. Meanwhile, currency market volatility has edged higher as Japan wrestles with political uncertainty following Sunday's snap election that resulted in LDP's loss of parliamentary majority. Data releases suggested further tightening in Japan's labor market, though market reaction was limited. Market participants expect the BOJ to maintain its policy rate at 0.25% in its meeting ending on October 31.



Commodity Markets

Brent crude oil price posted the largest one-day decline since 2022, falling 6.1% to \$71.42/barrel.

Markets were relieved that Israeli air strikes against Iran on Saturday were not as severe as some feared and left Iran's oil infrastructure untouched. Bloomberg also reported yesterday that for the first time since tensions increased in the Middle East earlier this month, Brent's 25-delta skew has turned negative as oil traders are now favoring puts over calls. Oil prices were marginally higher this morning (Brent crude +1.1% at \$72.55/barrel) although it remains down 6% for the year.



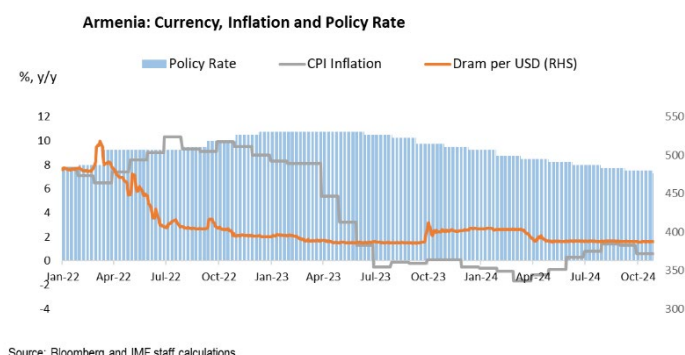
Emerging Markets

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EMEA equities and currencies were mixed. CEE equities were mostly in the green, with Poland outperforming (+0.8%), while CEE currencies were little changed against the euro, save for the Hungarian forint that continued to weaken. **Asian equities and currencies traded in a tight range as investors await the outcome of the US election next week.** The offshore CNH underperformed (-0.2%). At CNH 7.16 per dollar, it is at its weakest level since mid-August as investors bet on USD strength ahead of key US data. **Currency performance in Latin America was mixed in the region with only the Peruvian sol and the Chilean peso strengthening against the US dollar.** Despite facing its currency facing depreciation pressures, the Brazilian stock market was the best performer in the region (+1%). Long-term local currency bond yields in Colombia continued to drift higher (+20bps). Argentinian sovereign hard currency spreads rallied below distressed levels (967bps spread to US Treasuries on the EMBI Global Index).

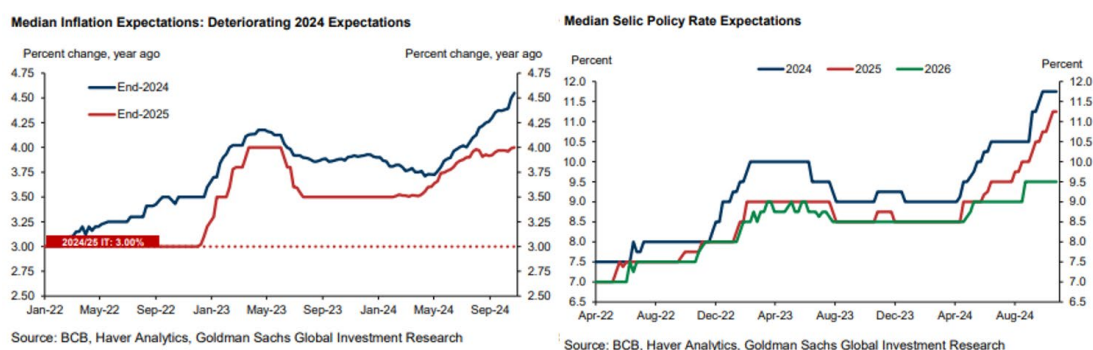
Armenia

The central bank cut its policy rate for the seventh time this year to 7.25%. The Armenian dram was little changed against the dollar this morning, trading at AMD 387.10/\$, although the currency has appreciated by 4% YTD. CPI inflation stood at 1.3% y/y in August, with flash estimates indicating inflation as low as 0.6% y/y in September due to base effects, against the central bank's target range of 4% +/- 1.5%. Preliminary data from Armenia's National Statistical Committee indicate that economic activity rose by 7%y/y in September (6.6%m/m), led by the industrial (4.6%y/y) and construction (14.7%y/y) sectors, while agriculture grew modestly (1.8%y/y). Expectations of GDP growth in 2024 vary: the IMF, the Asian Development Bank and S&P forecast between 5.5% and 6.2% while Armenia's government projects 7% GDP growth in 2024. Today, the government sold AMD 15bn (\$38.75m) of bonds due April 29, 2027, with a coupon of 8.4%, reporting a bid-cover ratio of 1.8, and AMD 15bn of 10-year bonds with a coupon of 12.5% with a bid-cover ratio of 2.5.



Brazil

Analysts expect inflation in Brazil to breach the central bank's tolerance range for 2024. The upward drift in short-term inflation expectations stands in contrast to the central bank's new inflation target for 2024/25 (3% with a tolerance range of 1.5%). Analysts think the Brazilian economy is showing signs of overheating as expectations for growth and fiscal deficits have surged and momentum in inflation has picked up. The central bank hiked at its last meeting in mid-September (+25bps), undoing its last rate cut from May. Forward rate pricing from futures markets suggests that the terminal rate for this hiking cycle appears to be around 13.5%. Rates markets were already expecting the central bank to restart its hiking cycle as far back as a year ago as opposed to economists who thought until the end of August that policy makers won't hike this year. The outgoing BCB governor Campos Neto stated that the deterioration in inflation expectations is related to the fiscal outlook, and the signal of a positive fiscal shock is needed. Fiscal concerns have not been uncommon in the region this year as currencies bear the brunt of investors' concerns. The Brazilian real, Colombian peso, and Mexican peso have been among the worst performing currencies against the US dollar this year following their outperformance last year.



India

Weaker earnings and a slowing economy are putting pressure on small cap stocks in India, according to Bloomberg. The Nifty Smallcap 250 Index has suffered a correction as the index has declined by 10% after peaking in September, which is the largest monthly decline since the pandemic. Weaker than expected corporate earnings have disappointed investors. Many analysts expect the selloff to continue because valuations in the sector remain very expensive despite the correction, a challenge that extends to the broader Indian market. The MSCI India index is currently priced at 22 times forward earnings, which is almost twice the level of the MSCI China index. Fading hopes of rate cuts by the central bank is another headwind for equities as inflation remains stubbornly high.



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

10/29/24 7:58 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5,824	0.3	-0.5	1.5	41.4	22
Europe		4,982	0.2	0.9	-1.7	24.1	10
Japan		38,904	0.8	1.3	2.6	26.7	16
China		3,925	-1.0	-0.8	-2.3	9.5	14
Asia Ex Japan		77	0.3	-0.7	-2.9	26.3	16
Emerging Markets		45	0.4	-0.6	-2.8	24.1	13
Interest Rates			basis points				
US 10y Yield		4.3	2	9	55	-53	42
Germany 10y Yield		2.3	4	1	19	-51	30
Japan 10y Yield		1.0	0	0	13	10	37
UK 10y Yield		4.3	3	12	31	-26	75
Credit Spreads			basis points				
US Investment Grade		124	1	2	-6	-38	-10
US High Yield		330	-7	-5	-29	-147	-55
Exchange Rates			%				
USD/Majors		104.4	0.1	0.3	4.0	-2.0	3
EUR/USD		1.1	-0.1	0.0	-3.0	1.7	-2
USD/JPY		153.6	0.2	1.7	7.0	3.0	9
EM/USD		44.9	0.1	-0.4	-3.0	-4.0	-7
Commodities			%				
Brent Crude Oil (\$/barrel)		72.3	1.3	-4.9	1.1	-12.8	-4
Industrials Metals (index)		150.8	0.8	0.3	-2.2	9.2	6
Agriculture (index)		55.4	0.3	-1.1	-4.6	-15.1	-11
Implied Volatility			%				
VIX Index (% , change in pp)		19.9	0.1	1.7	3.0	-1.3	7.5
Global FX Volatility		9.1	0.0	0.3	0.6	1.2	1.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		88	0	-1	-9	-46	-16
Italy		121	1	-3	-11	-76	-46
Portugal		41	-2	-5	-16	-32	-23
Spain		69	0	-3	-10	-40	-28

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

Emerging Market Financial Indicators

Last updated: 10/29/2024 8:00 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		7.14	-0.1	-0.2	-1.6	2.5	-0.5		2.0	1	2	2	-72	-52		
Indonesia		15771	-0.3	-1.3	-4.0	0.8	-2.4		6.9	4	18	39	-37	38		
India		84	0.0	0.0	-0.3	-1.0	-1.0		7.2	0	6	29	-52	2		
Philippines		58	0.0	-0.7	-3.9	-2.4	-5.0		4.9	-1	0	23	-99	-74		
Thailand		34	0.1	-0.8	-3.9	6.5	1.5		2.4	2	0	4	-87	-25		
Malaysia		4.38	-0.4	-1.2	-5.8	8.8	4.9		3.9	0	6	17	-24	16		
Argentina		987	-0.3	-0.4	-1.9	-64.6	-18.1		37.2	-47	-249	-333	-7025	-4922		
Brazil		5.70	0.1	-0.2	-4.5	-11.6	-14.9		12.6	5	-8	34	70	223		
Chile		944	0.3	0.4	-4.8	-3.9	-6.7		5.2	0	6	48	-84	30		
Colombia		4338	-0.1	-1.3	-3.1	-6.2	-10.7		8.7	0	25	114	-46	107		
Mexico		20.02	0.1	-0.3	-1.6	-9.8	-15.2		9.6	1	1	87	-11	111		
Peru		3.8	0.1	0.1	-1.6	1.9	-1.6		6.7	0	8	44	-100	2		
Uruguay		41	0.8	0.6	0.9	-3.2	-5.7		9.2	-35	-44	-66	-69	-32		
Hungary		375	-0.2	-1.1	-4.9	-3.8	-7.4		6.9	5	31	113	-66	114		
Poland		4.03	-0.1	-0.6	-4.4	4.1	-2.2		5.2	9	7	71	14	68		
Romania		4.6	-0.2	0.0	-3.0	1.5	-2.2		6.7	4	8	21	-18	48		
Russia		97.1	0.6	-1.3	-4.2	-4.6	-7.9									
South Africa		17.7	-0.1	-1.0	-2.5	6.4	3.6		8.9	1	5	48	-99	-20		
Türkiye		34.27	0.1	0.0	-0.2	-17.5	-13.8		30.3	-2	43	181	82	351		
US (DXY; 5y UST)		104	0.1	0.3	4.0	-2.0	3.0		4.14	2	13	63	-63	29		

	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		3,925	-1.0	-0.8	-2.3	9.5	14.4		109	-4	-16	-63	-49			
Indonesia		7,607	-0.4	-2.3	1.0	12.9	4.6		91	8	-10	-40	-5			
India		80,369	0.5	0.2	-4.7	25.4	11.3		91	-2	-14	-45	-25			
Philippines		7,240	-1.4	-2.3	-0.4	21.4	12.2		78	10	-7	-31	-2			
Thailand		1,451	-0.1	-2.5	0.2	4.0	2.5		0	0	0	0	0			
Malaysia		1,615	0.3	-1.7	-2.1	12.2	11.0		67	-3	-15	-28	-18			
Argentina		1,851,914	-1.1	1.7	7.2	182.5	99.2		917	-180	-398	-1645	-996			
Brazil		131,213	1.0	0.7	-1.1	15.8	-2.2		204	-1	-17	-19	-11			
Chile		6,735	-0.3	0.9	3.1	21.0	8.7		110	3	-8	-36	-15			
Colombia		1,339	0.4	-0.4	1.4	22.5	12.1		317	13	-2	-27	46			
Mexico		51,816	0.1	-1.9	-1.8	5.8	-9.7		298	1	-10	-75	-36			
Peru		30,966	0.0	1.0	2.3	41.1	19.3		133	0	-3	-29	-11			
Hungary		74,294	0.2	0.4	-0.3	31.9	22.6		148	9	-7	-55	-1			
Poland		81,870	1.4	1.1	-3.6	16.5	4.3		105	6	-10	-11	8			
Romania		17,498	0.7	0.9	-1.1	22.7	13.8		195	15	-3	-24	-6			
South Africa		87,720	0.1	1.1	0.2	26.3	14.1		282	11	2	-112	-26			
Türkiye		8,946	0.0	3.4	-8.5	16.1	19.8		269	-6	-13	-125	-45			
EM total		45	0.3	-0.6	-2.8	24.1	12.7		379	-5	-18	-29	33			

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

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