




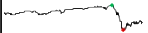






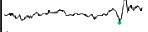


- German court ruling, grim EC warnings weigh on European assets ([link](#))
- US earnings forecasts see the highest uncertainty in history ([link](#))
- Fed's ETF purchases to start in 'early May' ([link](#))
- Chinese authorities considering dropping numerical GDP target ([link](#))
- Turkish currency re-approaches historic lows amid declines in FX reserves ([link](#))
- ESG investments remain resilient amid coronavirus uncertainty ([link](#))
- **Special Feature: Challenges and latest developments in India's Non-Bank Financial Corporate Sector** ([attached](#))

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Markets edge higher on limited news flow

Equities continue to eke out gains despite a backdrop of weak sentiment. Global equity markets are slightly up in the last 24 hours as Pres. Trump reiterated his intention to re-open the economy even at the cost of more illness and death. Chinese markets re-opened smoothly overnight after a five-day holiday in which US authorities rattled global investor sentiment with talk of tariffs as "punishment" for China's alleged role in the origins of the virus. In Europe, the single currency is faltering again on grim warnings about growth and unity from the EC and as investors continue to digest yesterday's German court ruling on the ECB. Meanwhile, equity investors in the US are less bullish about the economy than they appear, with a sharp decline at the end of yesterday's rally widely seen as indicative of limited appetite to chase valuations higher. Analysts point out other telltale signs of limited confidence in the recovery: cyclical stocks are once again underperforming defensive stocks, while recent weeks' equity performance is increasingly disconnected from high yield credit, which has been more stable.

Key Global Financial Indicators

Last updated: 5/6/20 8:06 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2868	0.9	0	8	-2	-11
Eurostoxx 50		2869	-0.2	-4	3	-17	-23
Nikkei 225		19619	-2.8	1	10	-12	-17
MSCI EM		36	0.7	-1	3	-17	-20
Yields and Spreads			bps				
US 10y Yield		0.68	2.8	6	1	-179	-123
Germany 10y Yield		-0.55	3.1	-5	-12	-55	-36
EMBIG Sovereign Spread		591	-5	-31	-36	246	298
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		52.8	-0.3	-1	0	-15	-14
Dollar index, (+) = \$ appreciation		100.0	0.3	0	-1	3	4
Brent Crude Oil (\$/barrel)		30.9	-0.3	37	-7	-57	-53
VIX Index (% change in pp)		32.2	-1.4	1	-13	17	18

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

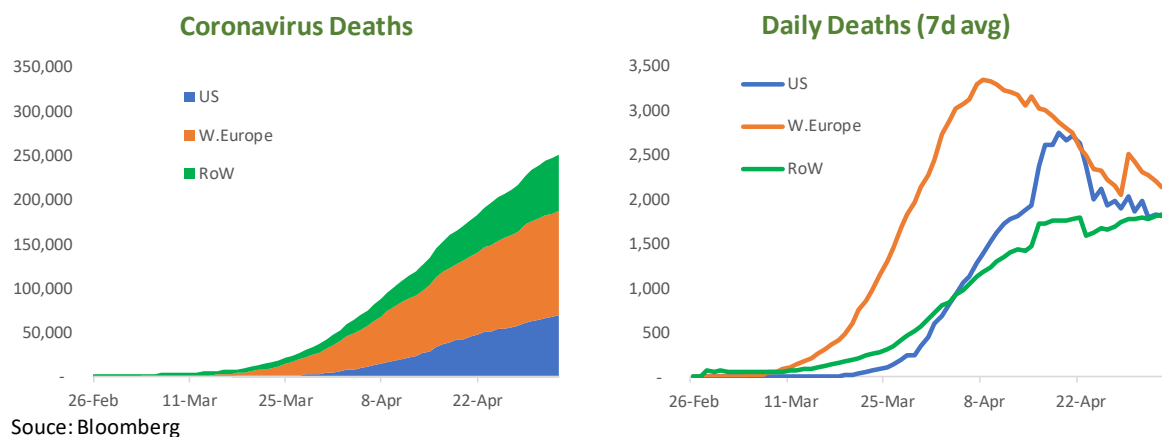
United States

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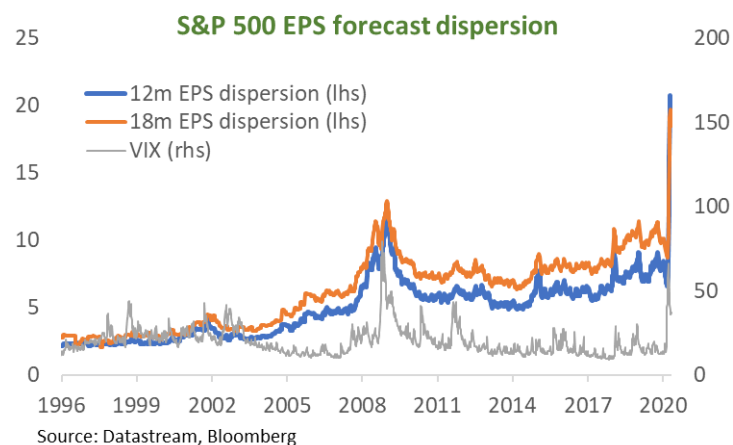
ADP employment change this morning was slightly better than expectations (-20236k vs. -20550k).

The number for the previous month was revised down to -149k from -27k. Market response was limited; Treasury 10-year yield declined by a half basis point following the headline.

Equities extended gains on growing optimism over the easing of some restrictions on economic activity. Oil prices also gained further with Brent futures traded above \$30/bbl. NY Governor Cuomo reported the daily number of deaths and new hospitalizations from the infectious disease continued to decline early this week. California moves toward reopening, and crowds have returned to beaches in Florida as reopening began. Among individual stocks, Starbucks jumped 4% in the morning after it said it plans to reopen more than 85% of its US stores within the week. On the negative side, however, deaths in the US could approach 135k, nearly twice the current toll of 70k, by early August, according to the University of Washington's Institute for Health Metrics and Evaluation. The institute doubled its previous death-toll projection to reflect the increasing movement of people and the relaxation of social-distancing guidelines in some places as many states start to reopen their economies. Chicago Fed President Evans also warned that the relaxing of stay-at-home policies is a bold decision with pretty high risks, and we would learn something from these experiments.



On the corporate earnings front, 283 companies in the S&P 500 reported their earnings by Friday last week, and many have stopped providing earnings guidance. Given the unprecedented level of uncertainty over the business environment, **the dispersion of analysts' EPS forecast for S&P 500 companies is the highest in the available history.**



The Treasury yield curve steepened further. The 2-to-30-year spread continued to widen by 5 bps, led by the long end due to heavy corporate new issuance. Economic indicators released today were weak, though not as bad as feared: exports plummeted by a record 9.6% m/m to \$188 bn, and imports fell 6.2% to \$232 bn. The non-manufacturing ISM plunged to 41.8 (vs. 38.0 cons). Fed vice chairman Clarida warned the economy would need more government support.

Plunge

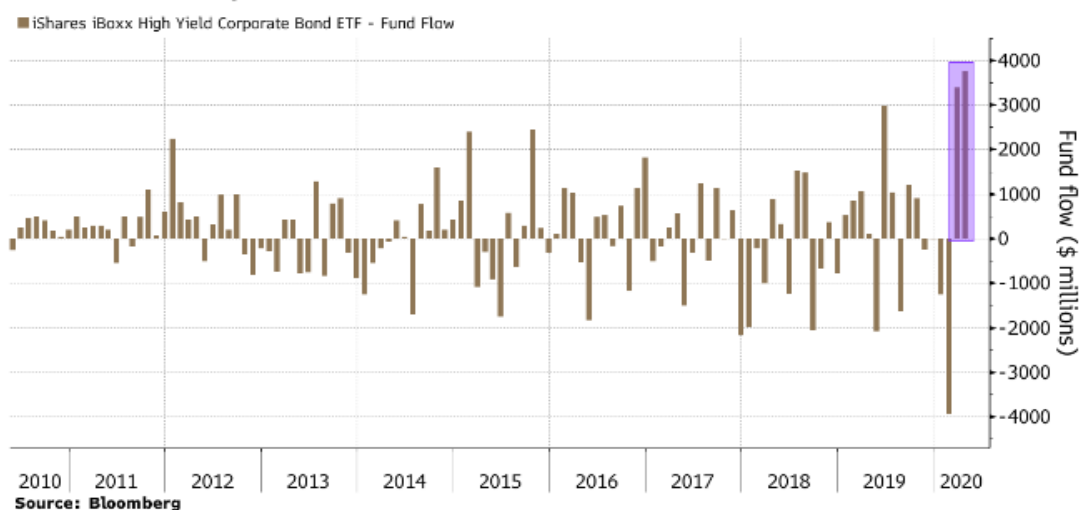
U.S. exports and imports sunk in March amid pandemic



The New York Fed will start buying ETFs in early May. According to their press release ([link](#)), the Secondary Market Corporate Credit Facility (SMCCF) is expected to begin purchasing eligible ETFs in early May. The Primary Market Corporate Credit Facility is expected to become operational and the SMCCF is expected to start buying eligible corporate bonds soon after that. High yield ETFs have seen a record inflow ahead of those programs. Since mid-March, corporate bond spreads have tightened by 160bps for IGs and 300bps for HYs despite continuous downgrade momentum. Around \$145 bn of debt was downgraded within the HY category in April. The default rate in the sector rose to 5.1% from 3.5% in 2019 year-end, according to BofA.

Fed Effect

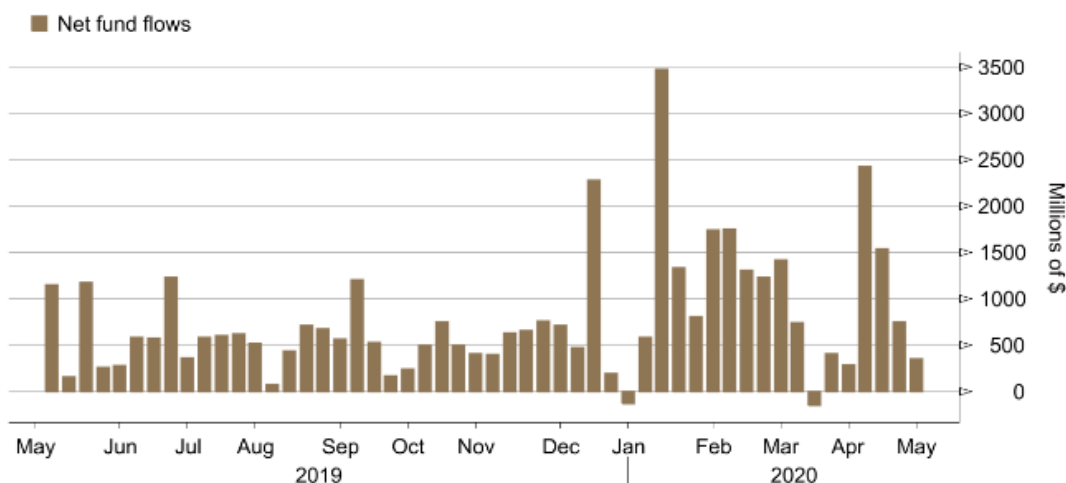
BlackRock's HYG posts record month of inflows



ESG investments remain resilient amid coronavirus uncertainty, as increased awareness of climate as well as social issues, and lower oil prices have possibly accelerated a structural shift in favor of the sustainable investment. According to Bloomberg, net inflows into ESG exchange-traded funds worldwide have reached \$20 bn year-to-date compared to a total of \$41 bn over the last year. ESG fund creation increased substantially in Q1, and new launches in 2020 are expected to almost double from last year.

ESG ETF Flows Over the Past Year

Flows were positive for the sixth straight week



Source: Bloomberg

Europe

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The euro (-0.4% to \$1.08) is weaker as yesterday's ruling by the German Constitutional Court (GCC) continues to weigh on risk sentiment, and the European Commission warned that the future of the euro area is at risk if the pandemic response is badly handled.

European equities are little changed and continue to underperform U.S. stocks even as **Germany's lockdown easing on 20 April** has not triggered any visible rebound in new infections.

Global Equity Markets in 2020 (1 Jan 2020: 100)



Source: Bloomberg and IMF

Chancellor Angela Merkel and state leaders are expected to agree that states and municipalities can decide on remaining lockdown measures, if daily new Covid-19 infections do not exceed 50 per 100k. For Germany that would mean about ~4,000 cases, compared to an average of ~800 over the last 5 days. The states reportedly want to open all restaurants, bars, and hotels by the end of May.

German and French 10-yr bond yields are 3 bps higher (at -0.55% and -0.04% respectively).

Italian 10-yr yields are little changed, so spreads fell 3 bps to 242 bps. Spanish 10-yr spreads were little changed with Greek 10-yr spreads 4 bps lower at 275 bps.

The [ECB “took note” of the German court ruling](#) by reiterating its full commitment to its price stability mandate and citing the EU’s Court of Justice (ECJ) ruling from Dec 2018 that the ECB is acting within its price stability mandate. The German court ruling has led to a wide range of questions on the role of EU treaties versus national law and implications for the design of current and future ECB QE programs.

As a reminder, the GCC broke from a prior ECJ decision yesterday, and ruled that German authorities acted unconstitutionally by not challenging the ECB’s sovereign PSPP program. The court argued that the ECB needed to evaluate the program’s broader economic impact but indicated that a detailed “decision” (including an assessment of the program’s proportionality) due in three months could bring the PSPP into compliance. If the ECB does not respond with a “decision” within three months, the Bundesbank may no longer participate in the implementation and execution of the PSPP program. In that case, the Bundesbank must ensure that the bonds already purchased and held in its portfolio are sold based on a – possibly long-term – strategy coordinated with the Eurosystem.

The GCC did not consider the legality of the ECB’s Pandemic Emergency Purchase Program launched in March, but contacts expect the PEPP program to be challenged in German courts.

Italian PM Conte said that ECB independence is at the heart of EU Treaties, and that no constitutional court can decide what the ECB can or cannot do. **PM Conte added that Italy does not expect to need ESM support.** FM Gualtieri expects Italy to receive €20 bn from SURE, €40 bn from the EIB and €100 bn from the EU recovery fund.

UniCredit shares (+0.8%) are higher after the bank posted a \$2.9 bn loss as loan-loss provisions climbed to €1.3 bn. This marks the second quarterly loss in a row, give one-off costs for job cuts and the write-down of its Turkish unit.

Germany received €36 bn of orders for an inaugural 15-yr Bund sale.

Primary markets for investment-grade corporate issuers remain vibrant, with €8 bn priced in the €IG-benchmark universe (of which €3.5 bn for banks).

United Kingdom

The British pound (-0.5% to \$1.237) fell as analysts point to difficult Brexit talks. EU Negotiator Barnier reportedly told EU leaders that the UK was trying to renege on its Withdrawal Agreement commitments and expressed doubt that the U.K. can carry out trade negotiations with both the EU and the U.S. and deal with the impact of the pandemic. The U.K. has refused to consider an extension of the transition period.

Other Mature Markets

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Japan


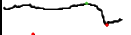


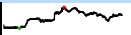




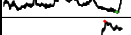



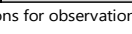
Japanese markets remained closed for the Golden Week holidays.

Emerging Markets

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Asian equities rose +0.6% on net, while currencies were mixed. Korean stocks (+1.8%) and the won (+0.6%) outperformed. Chinese equities (Shanghai +0.6%; Shenzhen +1.5%) rose on the first day of trading after the Golden Week holidays. The onshore RMB weakened -0.3% while the offshore counterpart appreciated 0.3%. **Latin American equity markets were mostly higher yesterday.** Equities advanced in Argentina (3.6%), Chile (1.8%), Peru (1.2%), Brazil (0.8%), and Mexico (0.7%). Currency markets were relatively quiet. Tax revenue in Argentina had a sharp 10% decline in April from March. In addition, Fitch cut the Long-Term Issuer Default Ratings for several large banks in Argentina, in line with the recent downgrade of the sovereign on April 17th. Fitch revised Brazil's outlook from stable to negative, citing the economic and fiscal outlook and political uncertainty in the country.

Key Emerging Market Financial Indicators

Last updated: 5/6/20 8:11 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		35.90	0.7	-1	3	-17	-20
MSCI Frontier Equities		22.96	2.0	3	7	-20	-24
EMBIG Sovereign Spread (in bps)		591	-5	-31	-36	246	298
EM FX vs. USD		52.74	-0.4	-1	0	-15	-14
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.10	-0.5	0	0	-5	-2
Indonesian Rupiah		14995	0.6	2	9	-5	-8
Indian Rupee		75.77	-0.2	0	0	-8	-6
Argentine Peso		67.01	-0.1	-1	-3	-33	-11
Brazil Real		5.64	-1.1	-5	-6	-30	-29
Mexican Peso		24.11	-0.5	-2	2	-21	-21
Russian Ruble		74.72	-1.3	-2	2	-13	-17
South African Rand		18.55	-0.2	-2	1	-22	-25
Turkish Lira		7.14	-0.9	-3	-5	-15	-17
EM FX volatility		11.87	0.0	0.6	-0.7	3.4	5.3

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

China

China is considering dropping the numerical GDP target for 2020, according to Bloomberg. A final decision has not been made on how to characterize the target, with a non-numerical target a possibility. **Tourism and other activity data from the Golden Week (1-5 May) were lackluster, suggesting a slow recovery from COVID-19 in these segments of the economy.** The daily average of national domestic visits and tourism revenues during the holidays shrank -52.8% and -67.7% y/y, respectively. The daily average of overall passenger trips was down -49.8% y/y at 24.1 mn compared with 47.9 mn last year. While visits to shopping malls declined, online shopping increased. According to Alibaba, sales of mobile phones, laptops and tablets at Tmall (one of the largest online shopping platforms in mainland China) surged 70%, 100% and 250% y/y, respectively, during the first three days of the Golden Week. **On US-China tensions, China's ambassador to the US Cui Tiankai called for an end to the "blame game" over COVID-19 in a Washington Post article.** Cui added that the allegations blaming China for the virus outbreak risked 'decoupling' the two economies. He did not mention the lab claim made by US Secretary of State Pompeo but rejected calls for China to compensate the damage caused by the virus. **Equities (Shanghai +0.6%; Shenzhen +1.5%) rose, paring earlier losses on the first trading day following the Golden Week vacation.**

Turkey

Turkey's central bank raised its limits for foreign-exchange swaps that private lenders could hold on their books, as the lira moved towards its historically weak level. Banks can now execute swaps up to 40% of their transaction limits – determined by the central bank – from 30% previously. Market analysts interpreted this latest move from TCMB as a sign that the central bank is looking to boost its foreign assets by borrowing more from domestic banks. Meanwhile, state banks have been intervening to support the lira.

According to official data, Turkey's gross reserves, including its gold holdings, have dropped by nearly \$20 bn from January, to \$86.4 bn as of April 24th; market contacts noted that state banks sold another \$500 mn or so of foreign currencies on Tuesday. The lira has been under pressure after consecutive policy rate cuts reduced the policy rate to 8.75%, below the current headline CPI of 10.94%. The lira lost another 0.2% on the day to TRY 7.09/dollar, compared to an all-time low of TRY 7.24/dollar in August 2018. On a year-to-date basis, it has weakened by 16% against the dollar.

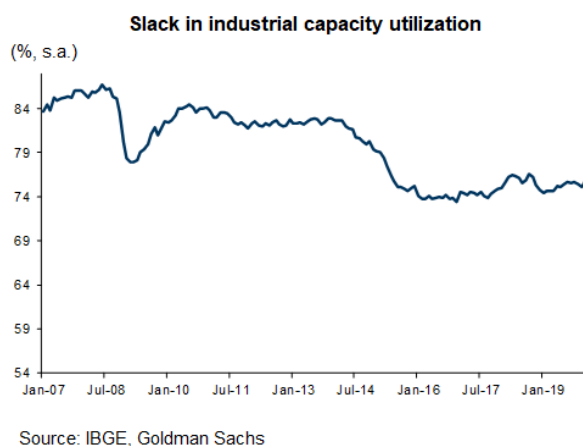
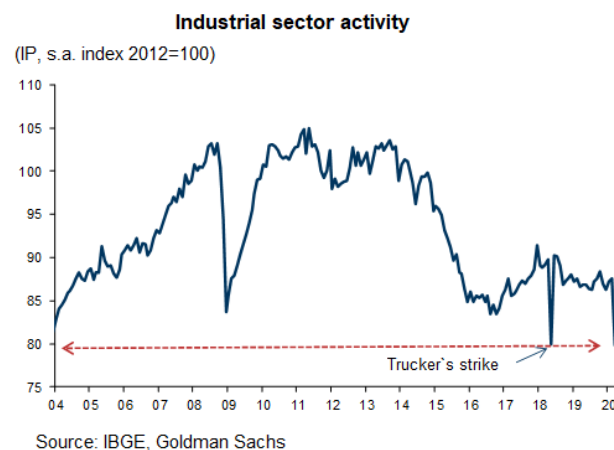
Inching Closer

Turkish lira slides for a fourth day, nearing a record low



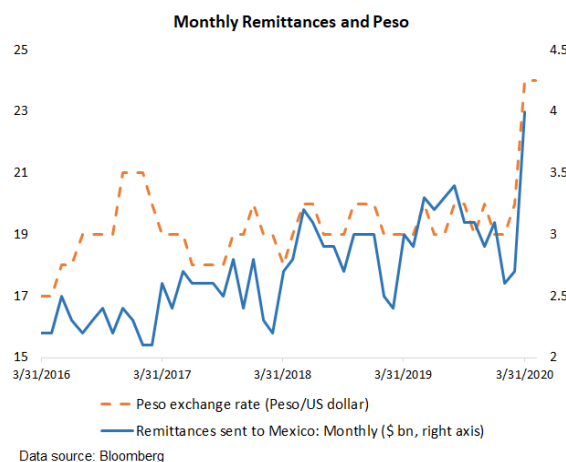
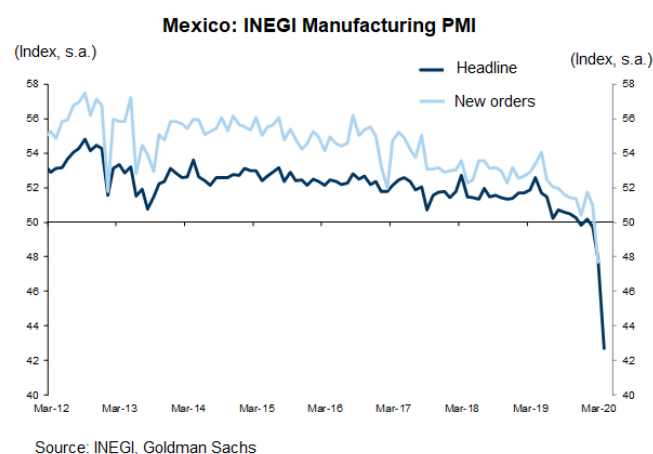
Brazil

Industrial production (IP) decreased by 9.1% mom (seasonally adjusted) in March. This movement was broad-based with consumer durables (-23.5% mom sa) and consumer non-durables (-12.0% mom sa) both getting hit hard. Capital goods (-15.2% mom sa) also saw a double-digit decline, portending weaker future capital expenditures. Overall, 23 of the 26 industrial segments had decreases in output in March. On quarterly basis industrial production declined by 2.7% qoq sa (-1.7% yoy) in the first quarter of 2020, from +0.3% qoq sa (-0.5% yoy) in the last quarter of 2019.



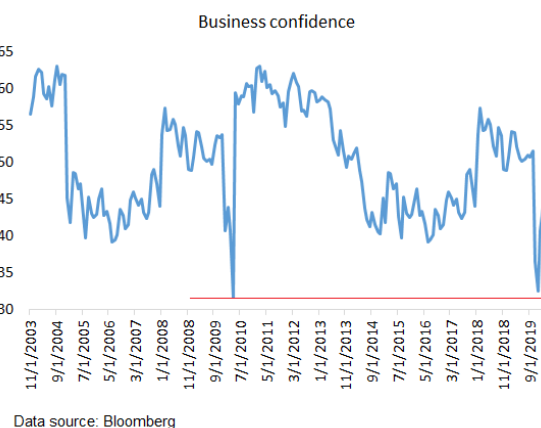
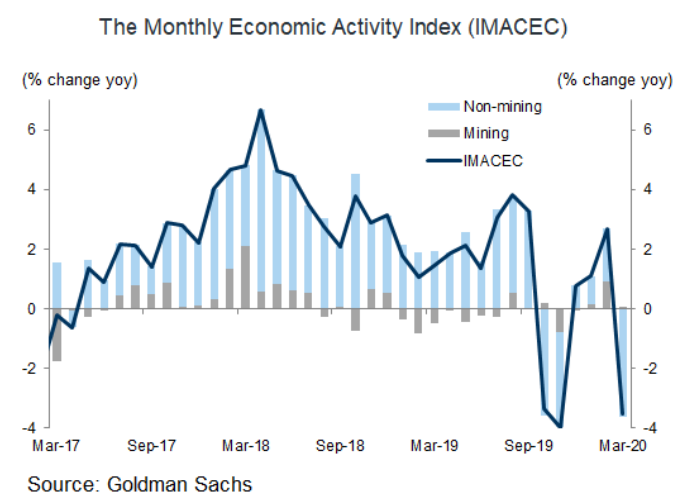
Mexico

Manufacturing activity (PMI) declined significantly in April, whereas remittances in March rose sharply. The PMI declined 5.2 pt to 42.7 (seasonally adjusted) in April. It was around 50 pt in the last quarter of 2019 and the first two months of 2020. The new orders index decreased 11.3 pt to 36.4 pt. Somewhat surprisingly, remittances to Mexico jumped from \$2.7 bn to \$4.0 bn, and reached a record high level in March. Some analysts suggest the driver is workers in the U.S. rushing to send savings home amid worsening economic indicators in the country, according to Bloomberg. Another possible reason for the jump could be the depreciation of the Mexican peso against the dollar since the beginning of March (around 22%), which could have given more incentives to workers to take advantage of a cheaper peso.



Chile

The Monthly Economic Activity Index (IMACEC), a proxy for GDP, declined 3.5% yoy in March, much below the 2.7% yoy expansion in February. GDP contracted by 5.7% mom (seasonally adjusted), very close to the decline in October 2019 (5.8%) during the social unrest. Moreover, the business confidence index decreased to a level (31.7 pt) which is lower than the late-2019 values at the onset of the social unrest, and tested a record low level in April.



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Global Financial Indicators

Last updated: 5/6/20 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2868	0.9	0	8	-2	-11
Europe		2869	-0.2	-4	3	-17	-23
Japan		19619	-2.8	1	10	-12	-17
China		2878	0.6	2	5	-7	-6
Asia Ex Japan		63	0.4	-2	3	-12	-15
Emerging Markets		36	0.7	-1	3	-17	-20
Interest Rates			basis points				
US 10y Yield		0.68	2.8	6	1	-179	-123
Germany 10y Yield		-0.55	3.1	-5	-12	-55	-36
Japan 10y Yield		-0.02	0.0	2	-4	2	-1
UK 10y Yield		0.22	1.7	-6	-11	-100	-60
Credit Spreads			basis points				
US Investment Grade		197	0.1	3	-58	84	100
US High Yield		751	-3.8	-13	-118	351	358
Europe IG		84	-0.7	6	-20	26	40
Europe HY		508	-0.6	31	-75	257	301
EMBIG Sovereign Spread		591	-5.0	-31	-36	246	298
Exchange Rates			%				
USD/Majors		99.98	0.3	0	-1	3	4
EUR/USD		1.08	-0.3	-1	0	-4	-4
USD/JPY		106.1	0.4	1	3	4	2
EM/USD		52.8	-0.3	-1	0	-15	-14
Commodities			%				
Brent Crude Oil (\$/barrel)		31	-0.3	37	-7	-57	-53
Industrials Metals (index)		95	1.2	-1	4	-18	-17
Agriculture (index)		35	-0.4	1	-4	-9	-16
Implied Volatility			%				
VIX Index (% change in pp)		32.2	-1.4	1.0	-13.0	16.8	18.4
10y Treasury Volatility Index		4.7	0.0	-0.5	-1.5	0.7	0.6
Global FX Volatility		9.3	0.0	0.3	-1.2	2.6	3.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		276	-2.3	8	40	-58	111
Italy		235	0.0	10	43	-22	75
Portugal		140	0.0	0	11	28	78
Spain		133	-2.5	4	19	36	68

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

Data source: Bloomberg.

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Emerging Market Financial Indicators

Last updated: 5/6/2020 8:11 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	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		7.10	-0.5	-0.3	0	-5	-2		2.4	0.0	2	-26	-100	-74
Indonesia		14995	0.6	2.0	9	-5	-8		8.1	-0.3	9	-17	6	92
India		76	-0.2	-0.1	0	-8	-6		6.2	-4.3	-7	-36	-131	-67
Philippines		50	0.1	0.1	1	3	0		4.9	-3.0	-4	-5	-33	56
Thailand		32	0.0	0.1	1	-1	-8		1.3	-3.6	-7	-40	-127	-27
Malaysia		4.32	-0.4	0.5	1	-4	-5		2.7	-6.6	-10	-48	-111	-61
Argentina		67	-0.1	-0.6	-3	-33	-11		40.3	15.5	-339	-1777	1370	-2228
Brazil		5.64	-1.1	-5.3	-6	-30	-29		5.9	-14.0	-17	-74	-223	-31
Chile		834	0.3	1.4	2	-19	-10		2.7	0.7	-3	-80	-137	-55
Colombia		3934	1.4	2.7	1	-17	-16		6.1	-15.1	-39	-128	-27	12
Mexico		24.11	-0.5	-1.5	2	-21	-21		6.5	-8.3	-34	-86	-171	-45
Peru		3.4	-0.1	0.0	0	-2	-2		4.7	-14.0	-8	-94	-65	16
Uruguay		43	0.4	1.3	2	-18	-12		11.7	0.4	-35	-168	82	86
Hungary		323	-0.1	0.8	4	-11	-9		1.7	4.1	7	-23	-42	55
Poland		4.20	-0.4	-0.5	1	-9	-10		1.1	-0.3	2	-20	-137	-82
Romania		4.5	-0.3	-0.2	0	-5	-4		4.1	-4.0	-6	-19	-12	11
Russia		74.7	-1.3	-2.3	2	-13	-17		5.9	0.0	2	-79	-206	-27
South Africa		18.6	-0.2	-2.1	1	-22	-25		10.4	-31.5	-76	-129	96	84
Turkey		7.14	-0.9	-2.6	-5	-15	-17		11.0	10.4	18	-291	-981	-68
US (DXY; 5y UST)		100	0.3	0.4	-1	3	4		0.39	1.3	2	-5	-188	-130

	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	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		2878	0.6	2	5	-7	-6		256	1	9	11	83	80
Indonesia		4609	-0.5	2	-4	-26	-27		334	-2	-14	-40	149	178
India		31686	0.7	-1	15	-18	-23		331	0	-2	-23	181	206
Philippines		5639	-0.6	1	1	-28	-28		176	-2	-16	-28	94	110
Malaysia		1377	-0.9	0	3	-16	-13		276	-4	-9	-16	154	164
Argentina		33547	3.6	12	25	2	-19		3423	-62	-626	-193	2508	1654
Brazil		79471	0.8	2	7	-16	-31		422	5	-12	-14	177	207
Chile		3922	1.8	1	5	-23	-16		277	0	-18	-48	153	144
Colombia		1099	-0.6	-4	-5	-29	-34		366	-14	-63	-47	191	203
Mexico		36616	0.7	5	6	-17	-16		635	-5	-52	-68	334	343
Peru		14900	1.2	3	10	-28	-27		242	0	-24	-52	113	135
Hungary		34503	-0.3	2	5	-17	-25		230	2	17	23	131	144
Poland		44632	-0.9	0	3	-24	-23		94	-9	-36	-32	52	76
Romania		8128	0.5	-1	5	-3	-19		354	-5	-13	-48	172	180
Russia		2656	0.1	2	1	3	-13		261	-3	-13	-9	55	130
South Africa		49617	0.9	-1	7	-15	-13		671	-9	-11	-53	362	351
Turkey		98882	0.1	-2	7	6	-14		695	16	12	-131	203	294
Ukraine		500	0.0	0	-1	-12	-2		800	-19	-107	-96	172	380
EM total		36	0.7	-1	3	-17	-20		591	-5	-31	-36	246	298

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

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