



Axel Botte
Head of Market Strategy
axel.botte@ostrum.com



Zouhoure Bousbih
Emerging countries strategist
zouhoure.bousbih@ostrum.com



Aline Goupil-Raguénès
Developed countries strategist
aline.goupil-raguenes@ostrum.com

● **Topic of the week: The thematic piece will resume on May 19.**

by Axel Botte

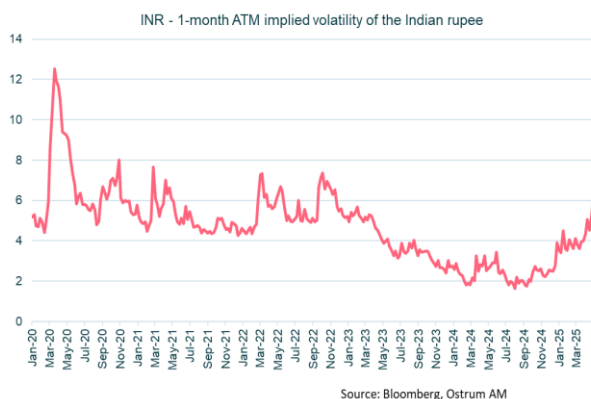
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● **Market review: Glimmers of Hope Amid Trade Tensions**

by Axel Botte

- De-escalation hopes key for risk asset markets;
- Fed holds steady at 4.50% on rates amid persistent pressure from Trump;
- Long-term rates resuming uptrend, particularly in Japan;
- Sovereign and credit spreads tightening, European equities slightly higher.

● **Chart of the week**



Implied volatility is a measure of the market expected future volatility of a currency exchange rate from now until the maturity date.

The outbreak of a conflict between Pakistan and India appears to have revived volatility in the USD-INR exchange rate after a prolonged period of subpar volatility. The 1-month implied volatility has reverted to 6 %, close to the 2020-2022 average.

● **Figure of the week**

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Global debt increased by \$7.5 trillion in Q1 2025 reaching \$324.3 trillion, a new record high, driven primarily by increased government borrowing in China, France, and Germany. However, debt grew less than global GDP, resulting in a decrease in the debt-to-GDP ratio to 325%, the lowest since late 2019. Source: Bloomberg.

- Topic of the week

The thematic piece will resume on May 19

- **Market review**

Glimmers of Hope Amid Trade Tensions

Financial markets are clinging to glimmers of hope that trade tensions initiated by Donald Trump may be easing, providing tentative support to risk assets. However, the risk is shifting towards currency markets and long-term interest rates.

Financial markets remain captivated by the prospect of a resolution to the trade war initiated by Donald Trump. However, the recently announced agreement between the United States and the United Kingdom appears minimalist. Indeed, the UK will still be subject to the baseline 10% tariffs imposed on all nations. A 90-day truce has been agreed to extend negotiations and roll back tariffs to 10%. While Chinese goods remain subject to the 20% levies related to the fentanyl crisis, there's a growing recognition on both sides of the untenable nature of the current situation. Chinese exports to the United States have, in effect, plummeted by 20% in April.

On the macroeconomic front, the US economy is potentially at an inflection point, although recent activity and employment data do not yet reflect a decisive shift. The Federal Reserve, under persistent pressure from President Trump, is constrained from preemptive action due to tariff-induced inflation expectations, currently pegged at 3.6% over one year, according to the New York Fed's survey. Jerome Powell has therefore maintained benchmark rates at 4.50%. April's Consumer Price Index (CPI) is expected to begin factoring in the impact of tariffs. While declining crude oil prices could cushion the blow, gasoline prices have continued their upward trajectory in April, trading around \$3.60 per gallon. Furthermore, stabilization in the Treasury market reduces the need for emergency intervention in the repo market. However, the weakness of the dollar, closely linked to the unpredictability of Trump's policy, remains a concern for the Fed, particularly as the deadline for agreeing on the federal budget looms. The surge in the Taiwanese dollar, up 6% in two days, underscores the potential for currency markets to become the epicenter of macroeconomic adjustments in the coming months, while persistent deflation in China is spurring a fresh round of monetary easing measures from the PBoC.

Upward pressure is building on interest rates, with the Fed's policy stasis translating into a 7 bp increase in the 2-year Treasury yield. While the 10-year T-note yields hover about 4.40%, it is Japanese bonds that are exhibiting the most pronounced movements, surging 11 bps last week to 1.37%. Yields on 40-year Japanese Government Bonds (JGBs) even reached 3.40%, a considerable jump from a 2025 low of 2.57% on April 4. This bond rout could accelerate action from the Bank of Japan, potentially leading to yen appreciation. The German Bund is trading around 2.60%, in keeping with subject to global market trends. Rising risk-free rates are compressing sovereign spreads, with French OATs trading at 70 bps and Italian BTPs narrowing by 6 bps over five sessions to 105 bps. Meanwhile, credit markets are benefiting from improved sentiment, accompanied by lower volatility. Inflows into euro-denominated IG credit have resumed since mid-April, with euro IG trading at 106 bps over Bunds or 96 bps over swaps. The compression is even more pronounced in CDS indices, with the iTraxx Crossover trading under the 322 bp mark. US equity markets have seen slight declines, in contrast to modest gains in Europe, with the German DAX index marking fresh highs. European banks are up 3%, followed by automobile and oil companies, despite pressure on crude prices.

Axel Botte

● Main market indicators

G4 Government Bonds	12-May-25	1wk (bp)	1m (bp)	2025 (bp)
EUR Bunds 2y	1.86%	+11	+7	-22
EUR Bunds 10y	2.63%	+11	+6	+26
EUR Bunds 2s10s	76.1 bp	0	-2	+48
USD Treasuries 2y	3.96%	+13	+0	-28
USD Treasuries 10y	4.43%	+9	-6	-14
USD Treasuries 2s10s	46.9 bp	-4	-5	+14
GBP Gilt 10y	4.63%	+12	-13	+6
JPY JGB 10y	1.44%	+18	+0	-2
€ Sovereign Spreads (10y)	12-May-25	1wk (bp)	1m (bp)	2025 (bp)
France	68 bp	-4	-4	-15
Italy	103 bp	-6	-9	-13
Spain	63 bp	-2	-4	-7
Inflation Break-evens (10y)	12-May-25	1wk (bp)	1m (bp)	2025 (bp)
EUR 10y Inflation Swap	1.92%	+2	+7	-1
USD 10y Inflation Swap	2.48%	+5	+4	+1
GBP 10y Inflation Swap	3.23%	-6	+10	-30
EUR Credit Indices	12-May-25	1wk (bp)	1m (bp)	2025 (bp)
EUR Corporate Credit OAS	106 bp	-5	-22	+4
EUR Agencies OAS	52 bp	-1	-9	-10
EUR Securitized - Covered OAS	49 bp	-1	-7	-7
EUR Pan-European High Yield OAS	360 bp	-11	-86	+42
EUR/USD CDS Indices 5y	12-May-25	1wk (bp)	1m (bp)	2025 (bp)
iTraxx IG	59 bp	-6	-15	+1
iTraxx Crossover	307 bp	-26	-65	-7
CDX IG	62 bp	-2	-9	+12
CDX High Yield	386 bp	-2	-41	+75
Emerging Markets	12-May-25	1wk (bp)	1m (bp)	2025 (bp)
JPM EMBI Global Div. Spread	346 bp	-11	-47	+20
Currencies	12-May-25	1wk (%)	1m (%)	2025 (%)
EUR/USD	\$1.115	-1.336	-1.589	7.7
GBP/USD	\$1.323	-0.339	0.479	5.7
USD/JPY	JPY 147	-1.912	-2.558	7.1
Commodity Futures	12-May-25	-1wk (\$)	-1m (\$)	2025 (%)
Crude Brent	\$66.1	\$5.8	\$2.1	-9.8
Gold	\$3 248.2	-\$61.6	\$40.6	23.8
Equity Market Indices	12-May-25	-1wk (%)	-1m (%)	2025 (%)
S&P 500	5 660	-0.47	5.53	-3.8
EuroStoxx 50	5 402	2.26	12.85	10.3
CAC 40	7 842	1.47	10.37	6.2
Nikkei 225	37 644	3.27	12.08	-5.6
Shanghai Composite	3 369	2.75	4.05	0.5
VIX - Implied Volatility Index	21.90	-7.36	-41.69	26.2

Source: Bloomberg, Ostrum AM

Additional notes

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