

# Weekly Macro and Markets View

27 April 2026



## Highlights and View

### UK manufacturing activity rises to the highest in four years

While both manufacturing and services activity have gained momentum in April, the recovery in the services sector remains modest.

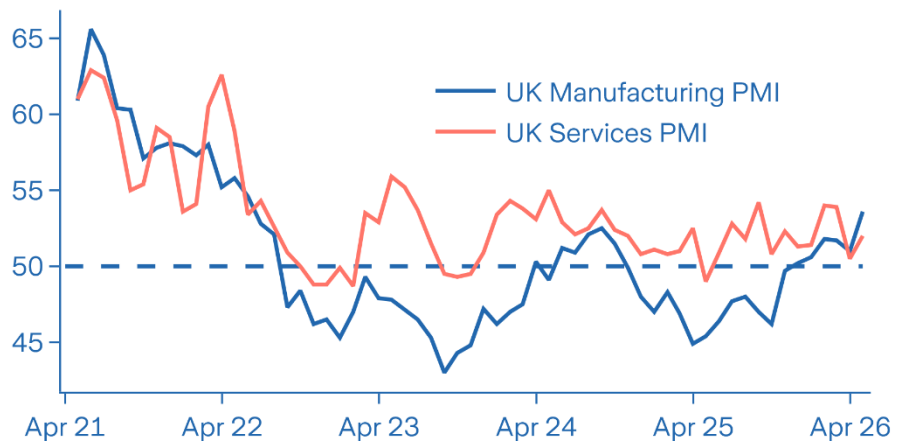
### Survey data show that sentiment and activity are weakening in the Eurozone while price pressures are building

The ECB is faced with a difficult dilemma, but rates are set to be kept unchanged in this week's policy meeting while market pricing of the rate outlook appears too hawkish.

### In Japan, core-core inflation remains firmly above 2% even as headline inflation appears benign due to government fuel subsidies absorbing surging energy costs

With underlying inflation firm and a weak yen lifting import costs an April move would look prudent, but Governor Ueda's recent emphasis on both growth and inflation risks has cooled tightening bets for this week.

## Manufacturing gains momentum in the UK



Source: Bloomberg

Business activity growth regained momentum across the UK private sector after hitting a six-month low in March according to the latest set of PMI data. The acceleration was supported by upturns in both manufacturing production and service sector output, with the surveys rising to 53.6 and 52.0, respectively. Not surprisingly, the jump in energy prices triggered by the war in the Middle East is showing up in the latest inflation numbers, with headline CPI inflation rising by 0.7% MoM in March, lifting the annual rate from 3.0% to 3.3%. Core CPI, however, ticked down from 3.2% YoY to 3.1%. Meanwhile, the labour market improved in February, with the unemployment rate receding from 5.2% to 4.9%, but the headline number is flattered by a drop in the participation rate. Wage growth slowed down to 3.6% YoY from 3.8% YoY the month before. Finally, retail sales rose markedly in March, but this was mostly driven by higher spending for fuel. Rising inflation rates, a pickup in economic activity, and questions around the future of Prime Minister Starmer helped to push government bond yields higher, with 10yr gilt yields moving back towards 5% last week while the spread against US Treasuries reached the highest level since last October. The FTSE 100 sold off, losing 2.7%, roughly in line with other European markets.

## US

A modest rebound in business activity

The latest PMIs show a modest rebound in business activity in April, following the near stagnation in March. The pickup was most pronounced in manufacturing where the index rose from 52.3 to 54.0. The solid gain partially reflects stock building in the face of concerns over supply availability and price hikes. Services activity improved only a little from 49.8 to 51.3. Meanwhile, average prices charged for goods and services rose at the fastest rate since July 2022 amid increases in input prices and supply scarcities. Rising gasoline prices boosted retail sales, though

household spending excluding auto and gas also picked up. Stock markets continued to move higher despite the ongoing geopolitical uncertainty. The S&P 500 reached another record high, rising 0.6% last week, the fourth weekly gain in a row, the longest winning stretch since October 2024. Equities keep benefitting from solid earnings growth and positive corporate outlooks with Alphabet, Microsoft, Amazon and Meta reporting this week.

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## Eurozone

Sentiment takes a hit while price pressures build

In contrast to market expectations of a modest decline, the Eurozone Flash Composite PMI fell sharply into contraction in April. Weakness was led by services while manufacturing held up better—reportedly supported by a rush to build buffer stocks amid the Iran war. Price pressures rose, with evidence of pass-through from input to output prices, particularly in Germany. Other data confirmed weakness, with the ZEW and ifo business surveys and the EC consumer sentiment survey all deteriorating. The data highlight the difficult dilemma facing the ECB

as economic activity takes a hit while price pressures are on the rise. That said, ECB rate setters have signalled that a wait-and-see approach is appropriate, but that they will need to remain vigilant and ready to act should it be needed. We agree with this approach and expect rates to be kept on hold in this week's ECB meeting. By contrast, market pricing of the ECB outlook moved in a hawkish direction last week, with two rate hikes in 2026 again fully priced. Unless oil and gas prices rise materially further, this appears too hawkish.

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## Japan

Soaring energy costs land on the government's tab

Headline CPI came in only at 1.5% YoY in March as government fuel subsidies capped gasoline prices at JPY 170/l. Elevated energy costs are being shifted from households onto the government's balance sheet, with fuel subsidies now costing over JPY 300bn per month. If high oil prices persist and the scheme runs for a year, the fiscal bill could hit 0.5–1% of GDP. While Japan's fiscal position has recently been supported by strong tax revenues, rising subsidy bills may require additional bond issuance. Higher inflation expectations and potential rising fiscal costs

are adding upward pressure to JGB yields, now trading near 2.5%. That said, the US-Iran ceasefire and softer oil pricing over the next six months should offer some relief. Meanwhile, BoJ hike expectations have swung wildly from April to June. With underlying inflation firm and a weak yen lifting already surging energy import costs an April move would look prudent, but Governor Ueda's recent emphasis on both growth and inflation risks has cooled tightening bets for next week.

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## Credit

A mixed tone amid an insightful bank earnings season

Corporate credit markets were mixed last week, with Credit Default Swap (CDS) indices widening while corporate bonds were little changed except in European High Yield (HY) where spreads tightened. Primary markets remained active, with AI-related supply continuing to grow and HY becoming a larger part of the mix. The latest US bank earnings provided some notable insights. While earnings were generally strong overall, healthy credit metrics and lower provisions support the view that current credit conditions remain benign. Concerns

around banks' private credit exposures also appeared to be diminished, as management teams highlighted structural protections, asset-level visibility and limited concentration risk, although comments on macro uncertainty and weaker underwriting standards kept the broader tone cautious. M&A commentary remained constructive, supported by corporate activity and strong backlogs, although sponsor-driven volumes were still softer amid valuation uncertainty.

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## US Municipals

Flows recover as volatility eases

US municipal markets were steadier over the past week, supported by the recent decline in rate volatility. Flows turned positive again last week, with roughly USD 1bn flowing into municipal funds following tax payment-related outflows around the April 15 tax filing deadline. Valuation metrics continued to adjust, with tax exempt yields moving lower relative to Treasuries. Along the curve, pricing dynamics increasingly favour intermediate maturities, whereas upside potential at the long end appears more constrained. New issue volumes have remained elevated but

have been met with solid demand, preventing any material deterioration in technical conditions. High Yield (HY) municipals have outperformed Investment Grade (IG) so far in 2026. We view this outperformance as largely reflective of technical factors, including constrained net supply, and a catch up from last year's weakness rather than a broad-based improvement in credit fundamentals. By contrast, IG municipals, which lagged during the March volatility episode, have yet to fully recover and, in our view, offer a more balanced risk reward profile.

## What to Watch

- In the US, investors' focus will be on earnings reports from Alphabet, Microsoft, Amazon and Meta as well as other key economic data points including the latest ISM survey.
- April CPI and Q1 GDP data will be published in the Eurozone while the ECB will set interest rates.
- In Asia, all eyes are on the Bank of Japan's meeting this week. Tokyo CPIs, industrial production and retail sales will be released in Japan as well. China's PMIs, inflation in Australia, and the Bank of Thailand's policy meeting are also key to watch.
- Attention turns to monetary policy this week in LatAm, with Brazil's BCB expected to deliver a cautious 25bp rate cut while Chile's central bank is anticipated to hold steady.

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