

Weekly Macro and Markets View

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Highlights and View

LatAm central banks to remain patient despite tighter spreads

Above-target inflation and narrower spreads add renewed FX pressure, but domestic conditions still favour extended pauses in Mexico and Chile, while Brazil's restrictive stance and improving fiscal prospects leave room for a continuous cautious easing.

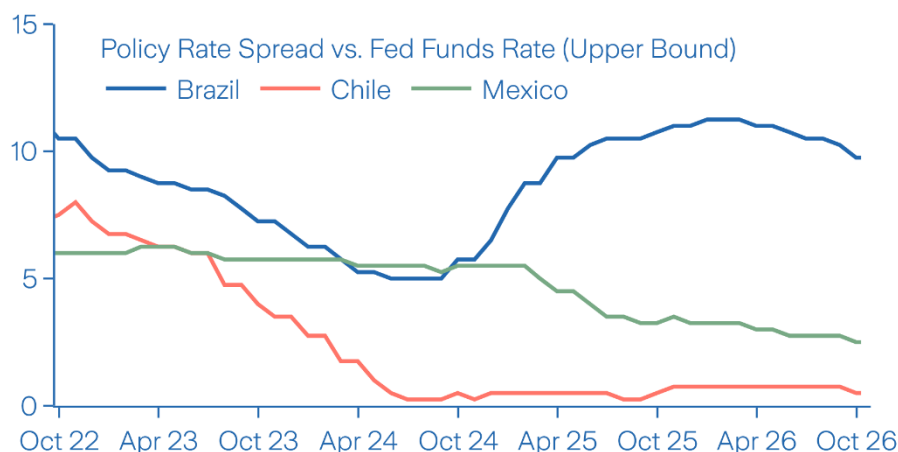
French debt markets stabilised this week, despite considerable ongoing intraday volatility.

Conditions are still fragile, and risks of further widening remain high between now and next year's Presidential Election

After four rate hikes this year, consumer sentiment in Australia has soured and is near its weakest recorded level.

High inflation expectations and a downturn in house prices are also making an impact, while economic activity is resilient on the back of record data center investments.

Narrower spreads, still no case for hikes



Source: Bloomberg

September's inflation readings provided little reassurance. Chile's CPI rose 0.4% MoM, slightly below expectations, but left annual inflation at 4.1% above target. Mexico's headline inflation rebounded to 3.5% YoY from 3.3%, as previously subdued non-core prices regained ground. Brazil's CPI exceeded consensus, taking headline inflation back above the upper tolerance bound to 4.6% YoY. The electricity rebate reversal contributed as expected, but services and core pressures also strengthened, underscoring that the disinflation battle is far from over. With inflation still above target across these economies, the Fed's September hike added another challenge. Mexico's rate differential reached a new historical low, while Chile's narrowed to near pandemic-era lows, adding pressure in FX markets. Yet narrower spreads alone do not warrant a renewed hiking cycle in these economies, in our view. Indeed, Banxico's latest minutes reinforced its dovish tilt and willingness to decouple from the Fed, while MXN remains appreciated in REER terms relative to historical levels. Chile's subdued economy with core inflation remaining close to target, likewise favours an extended pause. In turn, while Brazil's core deterioration warrants caution, its still highly restrictive monetary stance, ample rate differential and improving prospects for a right-wing runoff victory with a more credible commitment to fiscal restraint could still give the BCB confidence to continue its cautious easing cycle.

US

Services activity remains strong

The latest ISM Services survey shows continuously strong momentum in the service sector despite a modest slowdown in September. Both new orders and the backlog of orders remain high while the employment component has stabilised following two softer months. Meanwhile, price pressure has picked up to the highest level since July 2022, indicating that inflation risks remain elevated. The Fed minutes did not provide any substantial news but indicated that risk management considerations were an important reason for the FOMC's more

hawkish stance. Consumer sentiment fell back to the lowest since May according to the University of Michigan's latest survey with perception of current economic conditions falling to the lowest on record. 10yr Treasury yields remained basically unchanged after falling back from a multi-decade high reached during the week. The S&P 500 reached a new record high for the first time since August, rising 1.2% over the course of the week. Performance was more subdued for smaller companies, with the Russell 2000 shedding 0.9%.

Eurozone

Temporary relief

Last week brought stabilisation to Eurozone asset prices, including French bond spreads, amid continued intraday volatility. Citing recent bond weakness, presidential candidate Marine Le Pen announced various deficit reducing measures and a constitutional deficit reduction requirement proposal at a press conference. While welcome news, details remain uncertain. Conversely, another candidate, Jean-Luc Mélenchon, said he would prosecute France's national central bank governor for treason for suggesting there is a message about public finances in the bond market

moves. We still see risks of further spread widening towards the election. In Spain, Prime Minister Sánchez called a snap election for the 29th of November. Current polling suggests an uphill battle for the Socialist premier. The market implications of this election are expected to be small, given a strong economic backdrop. Lastly, industrial production data and PMI readings both disappointed expectations in Italy, where data have weakened as of late.

India

Time to tighten

In its first hike this year, the Reserve Bank of India (RBI) raised its repo rate by 25bps to 5.5%. While CPI for August at 4.8% YoY is still within the target band, market consensus for the September release expects this to accelerate to 5.5% YoY. The policy statement also cited signs of inflation broadening to a wider range of goods. Additionally, economic activity is stronger than forecasted, with the RBI lifting its real GDP forecast for 2026-27 from 6.7% to 7.1%. Improvements can also be seen in the PMI data, showing optimistic sentiment across industries. While the final

print for September was adjusted downward, the revised reading of 55.1 nonetheless reversed a downward trend since May. While India hasn't been a major beneficiary of AI-related manufacturing, there are signs this is changing. In August, manufacturing of computer, electronic and optical products was up 19% YoY. The extent of participation in the AI supply chain will have a big influence on how strongly the economy continues to grow, in the face of El Nino effects and lingering disruption in the Middle East.

Equities

In a holding pattern

Stocks failed to make much headway last week given a lull in information following the central bank decisions of a few weeks ago and before the upcoming earnings season. The MSCI World Index did manage to tack on a further 0.7% gain, taking it around 1% below its record high from August. US stocks were a tad stronger, with the S&P 500 hitting a new record on Tuesday, up 1.2% on the week. Volatility in both bond and oil markets had limited impact, but slightly disappointing preliminary Q3 results from Samsung dampened the mood in semiconductors.

The results themselves were again spectacular, with operating profits up around 800% YoY with a 50% margin. However, this is taken as a current 'new norm' by investors with the stock down modestly. There was some spill-over to other semiconductor names with the US Philly semiconductor index off 4.3% on the week, but the broader tech-heavy Nasdaq still managed to hit a new high. We remain positive on stocks and are encouraged by a lack of euphoria by investors and attractive valuations.

Credit

Refinancing wall looms for Europe's weakest borrowers

Pressure on corporate credit markets eased last week with spreads closing a few basis points below their six-month peak, as rate volatility came down and euro-area stress moderated with European spreads outperforming the US across Investment Grade and High Yield (HY). Investor demand diverged, with US funds returning to inflows after outflows the week before, while European funds saw further outflows. Issuance slowed on both sides of the Atlantic, as yields are at multi-decade highs and corporates entering their earnings blackout period. Beneath the surface the

weakest borrowers continued to sell off, with EUR CCC widening by 87bps on the week and leaving a month-to-date excess return of -3.4%. European HY faces a steeper maturity wall than the US, with energy-sensitive and consumer-related issuers a meaningful share of upcoming maturities. The strain is most concentrated in the small CCC bucket, where on the 2027-28 maturities the median yield is around 22% against a median coupon rate of 4%. If yields stay higher for longer, we see limited capacity for these borrowers to absorb that jump in refinancing costs.

What to Watch

- In the US, the latest set of inflation data will be watched closely, with retail sales and industrial production giving important insights into the current state of economic activity.
- August industrial production data will be released for the Eurozone.
- Key data include business confidence and unemployment figures in Australia, as well as CPI and international trade releases in China and India. Q3 GDP for Malaysia and Singapore will also be available.
- In LatAm, attention will focus on Brazil's August retail sales and IBC-Br activity index, alongside September PMI.

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