Financial Markets Report - Second Quarter 2022

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Throughout the second quarter of 2022 (2Q22), inflationary pressures persisted, exacerbated by the rise of agricultural and energy commodity prices, leading to expectations of a more contractionary global monetary policy. Additionally, financial markets continued to be under pressure due to measures taken by Chinese authorities to contain the pandemic in that country, fears of a possible global economic recession, and multiple idiosyncratic factors generating uncertainty in several countries in the region. In this context, the US Treasury curve flattened due to greater devaluations of short-term securities, and the US dollar strengthened, also supported by increased international risk perception. Throughout this quarter, the Federal Reserve (Fed) increased its interest rates by 50 basis points (bps) in April and 75 bps at its June meeting. Meanwhile, the European Central Bank (ECB), although it did not raise rates during this period, did conclude its asset purchase and pandemic emergency program.

Regarding Latin American assets, most regional public debt securities depreciated, following the trend observed in the United States and amid less expansionary monetary policies by central banks, as well as idiosyncratic factors that particularly affected long-term securities. Meanwhile, the exchange rates of emerging and Latin American countries weakened against the strengthening of the US dollar, the high volatility in commodity prices, and some idiosyncratic factors.

Locally, during this quarter, the Board of Directors of *Banco de la República* (the Central Bank of Colombia) increased its interest rate by 250 bps from 5.0% to 7.5% due to increasing inflationary pressures and better economic growth figures. There were devaluations of public debt in both local and external currency denominated, behavior in line with several countries in the region. The Colombian peso was affected by the international context and local factors, where market agents highlighted uncertainty regarding electoral results and the persistence of inflationary pressures. This was reflected in increases in Colombia's CDS and EMBI. Nevertheless, during this period, economic activity figures were published and surprised the market for most of the quarter, accompanied by a consumer confidence recovery and the continuation of high levels of business confidence, which has led to an improvement in the economic growth outlook for this year.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications-research/financial-markets-report/second-quarter-2022