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*Banco de la República* (the Central Bank of Colombia) produces information for decision-making, accountability, and public dissemination. Particularly, the Financial Markets Report is framed within the principle of public dissemination and contributes to the Bank's service of providing quality economic information and research.

In line with the above, this report aims to provide the public with a general analysis of the behavior and trends of domestic and international financial markets. Additionally, the report highlights the key factors

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that elucidate the behavior of these markets, along with their interactions. The report also provides a description of the main changes in monetary policy and central bank decisions worldwide.

The second quarter of 2021 (2Q21) was characterized by a period of optimism due to expectations of global economic recovery faster than previously anticipated. Continued fiscal and monetary stimulus, progress in an unprecedented vaccination process in human history, and the economic reopening in both developed and emerging countries were the main drivers of this increased optimism.

This led to a strengthening of stock markets in developed economies and most emerging economies. Additionally, commodity prices continued to rise, reaching recent years' peak levels. However, this pace of recovery was also accompanied by significant inflationary pressures in the US and some countries in the region. Nevertheless, long-term yields on US sovereign bonds (Treasury) have seen significant reductions amid market expectations that recent inflationary pressures are transitory.

In the region, financial assets showed a mixed performance, benefiting from increased appetite for emerging economies' assets but pressured by sources of political, fiscal, and health-related uncertainty, as well as inflationary pressures, which could prompt monetary authorities to adopt a less expansionary stance in the short term.

Locally, during 2Q21, risk perception increased due to: i) fiscal uncertainty associated with the presentation and subsequent withdrawal of the fiscal reform proposed by the Government; ii) socio-political uncertainty following the protests triggered by the initial fiscal proposal; iii) health-related uncertainty associated with the rapid increase in COVID-19 cases; and iv) credit uncertainty after S&P Global withdrew the country's investment-grade rating on May 19, followed by Fitch Ratings, which made the same decision on July 1. However, the 1Q21 growth data (1.1% YoY; consensus: -0.4%), as well as confidence and economic activity figures published during 2Q21, demonstrated the resilience of the Colombian economy, leading market analysts to increase their growth projections for 2021. Thus, the Colombian peso exhibited volatile behavior during the period and depreciated by 1.9%, while the zero-coupon rates of peso-denominated TES (Bonds issued by the Colombian government) showed variations of 60 basis points (bps), 45 bps, and 13 bps for the 2-, 5- and 10-year maturities, respectively.

This edition of the document is divided into eight sections, with this introduction being the first. Section two provides an executive summary of the document. Section three presents a description of the most significant events in the international economic environment. Subsequently, section four outlines the behavior of key risk perception indicators at the local level. Section five describes the global and local foreign exchange markets. Section six offers an analysis of the global and local money and fixed income markets. Additionally, section seven describes the performance of the local primary private debt market. Finally, section eight analyzes the performance of the stock markets.

Furthermore, two Boxes are included in this edition: the first one examines the relationship between a country's tax levels and the participation of foreign investors in its public debt market, and the second Box explains the momentum strategy in emerging stock markets, evaluating whether Colombia has been a winner or loser, and which variables explain its performance.

