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

This report aims to provide the public with a comprehensive analysis of the behavior and trends of domestic and international financial markets. In addition, it highlights the key factors that explain the behavior of these markets and their interactions, and describes the main changes in monetary policy and central bank decisions worldwide.

The global economic environment in which the markets studied in this report operate continues to be characterized by low growth prospects, inflation that continues to surprise with its high persistence, geopolitical tensions, and the presence of financial risk factors that could materialize in a more complex macroeconomic scenario. On their behalf, market participants have weighted different sources of information to discern the potential path of global monetary policy, given its effects on different markets. However, by the end of the first quarter of 2023, the expectation of a less contractionary stance by the Fed prevailed, taking into account that, although the authorities have expressed their assessment of the resilience of the banking sector after the collapse of some regional banks, there is a high level of investors' reactivity to news about the economic performance, inflation, the labor market, and credit dynamics and, consequently, on financial conditions in the US.

Regarding the evolution of macroeconomic variables and expectations of future monetary policy evolution in the local context, market participants foresee a decreasing inflation path and an economic slowdown for 2023, consistent with expectations of a contractionary monetary policy stance by Banrep. In this scenario, the market anticipates the end of the cycle of benchmark interest rate increases by Banrep for the second quarter of the year, as well as the start of interest rate reductions towards the second half of the year.

As for the Colombian public debt market, it exhibited a favorable performance, outperforming regional peers, which contrasts with its behavior during 2022. This is in line with the Fed's monetary policy rate reduction outlook and increased market liquidity. However, the interest rates in this market suggest a relatively high funding cost. The monetary market exhibited ample liquidity levels that corrected during the period.

At the same time, a high perception of country risk persists, which aligns with the presence of some external and fiscal vulnerability sources, as well as uncertainty about the outcome of the Colombian government's reform agenda. As a result, foreign investors sold public debt securities in the quarter, although their behavior was volatile and sales were conducted by a few specific agents and were concentrated in a few particular references.

Regarding private debt, there is a strong dynamism of the CDT (Term deposit certificate) market in the recent period, while placements in other private debt securities continue to lose dynamism. This report studies the factors that may have led to the significant increase in the spread of rates between CDTs and TES (Government Bonds) in the recent period. There is evidence of a potential relationship between the spread and factors such as the monetary policy rate and its expectations, higher inflation expectations, credit portfolio growth accompanied by the implementation of the NSFR, high concentration among CDT holders, and higher risk perception.

As for the foreign exchange market, the Colombian peso appreciated and returned to levels not seen in nearly six months, aligned with corrections in the strength of the dollar internationally. However, its levels remain

deviated from the currencies of the region's peers. Finally, the local stock market continues to exhibit weak performance compared to its peers in the region, within a low liquidity environment. Banking sector stocks, which carry an important weight in the local index, experienced significant declines, aligned with global benchmarks, due to adverse events in some financial institutions in the USA and Switzerland.