

Decoupled by Crisis: Macro Signals in Lebanese Bonds and Stocks



July 21, 2026

Contact Information

Mira Said

Research Associate I

mira.said@blom.com.lb

INTRODUCTION

Will financial markets rise or fall from here? That is the billion-dollar question. To approach an answer, analysts track indicators such as economic growth and inflation. For growth, the Purchasing Managers' Index (PMI) often proves more useful than GDP: it is published monthly, making it timelier, and it is not subject to revisions. Constructed as a diffusion index scaled from 0 to 100—where readings above 50 signal monthly expansion and those below indicate contraction—the index offers a clear benchmark for real-economy conditions.

This paper evaluates the BLOM Lebanon PMI alongside its forward-looking Future Output subindex—a metric that explicitly tracks whether business activity levels will be higher, the same, or lower in 12 months' time—to test its reliability for investors in Lebanese financial markets. Given the severe geopolitical and macroeconomic uncertainty surrounding the economy, this forward-looking sentiment indicator is particularly relevant. Specifically, we examine its contemporaneous link to defaulted Eurobonds while explaining why Lebanese equities, unlike global markets, display little sensitivity to real-economy signals.

LITERATURE

S&P Global analyzed the relationship between the FTSE All World Index, PMI, and GDP from 2007 to 2024. The findings show that the strongest results emerged when both indicators coincided, with the PMI proving more closely correlated to equity performance than GDP. This stronger link partially reflects the fact that PMI excludes the public sector, making it a more accurate predictor of equity trends. The results are summarized below:

Table 1: Economic Growth Indicator Correlations with Global Equity Prices

Indicator ... Comparison with FTSE All World...	Global PMI Output Index*, monthly		Global PMI Output Index quarterly average		GDP Q/Q % change	
	Annual % change	3m/3m % change	Annual % change	3m/3m % change	Annual % change	3m/3m % change
<i>Indicator lead/lag</i>						
leading 5 months	34%	35%	37%	37%	2%	0%
leading 4 months	39%	40%	45%	44%	6%	-1%
leading 3 months	48%	46%	54%	51%	15%	10%
leading 2 months	58%	52%	62%	58%	22%	27%
leading 1 month	65%	58%	66%	60%	27%	42%
Coincident	65%	57%	67%	54%	31%	46%
lagging 1 month	61%	45%	64%	42%	31%	40%
lagging 2 months	56%	25%	59%	24%	29%	27%

* The Global PMI Output Index covers manufacturing and services.

Statistics compiled using data from 2007 to 2024.

Source: S&P Global Market Intelligence, PMI compiled in association with J.P.Morgan.

As for stocks, research on Lebanese equities suggests they function primarily as a store of value hedge against the devaluation of Local Dollars (lollars or dollar amounts trapped in Lebanese banks), raising the question of whether they have become decoupled from the real economy.

In this sense, this paper sits at the intersection of these two literatures, testing whether Lebanon's PMI retains explanatory power for a defaulted dollar-denominated sovereign bond, and whether it retains any power at all for a locally listed, Lollar-denominated equity.

DATA AND DIAGNOSTICS

The dataset covers 102 monthly observations starting in November 2017 and ending in May 2026, sourced from LSEG and BLOMINVEST Bank. It includes price series for a benchmark Lebanese Eurobond (maturing November 2031), the SOLIDERE B stock, the Headline PMI Index, and the Future Output subindex. Two dummy variables are also constructed: one distinguishing Eurobond performance before and after the default, and another differentiating stock behavior before and after the financial crisis.

Stationarity

Raw price and index levels are generally non-stationary, which risks spurious regression if used directly. An Augmented Dickey-Fuller (ADF) test was applied to each series. Asset prices were converted to monthly log returns, which test as stationary. The raw levels of both the Headline PMI and the Future Output subindex fail the stationarity test, but their first-differenced monthly changes are strongly stationary. Accordingly, all regressions use log returns for asset prices and month-on-month changes for the PMI variables.

Table 2. Augmented Dickey-Fuller stationarity test results.

Series	ADF Statistic	P-value	Conclusion
Eurobond log return	-4.4806	0.0002	Stationary
SOLIDERE B log return	-10.3179	0.0000	Stationary
Headline PMI (level)	-1.7392	0.4110	Non-stationary
Future Output (level)	-1.8650	0.3487	Non-stationary
PMI (monthly change)	-5.2874	0.0000	Stationary
Future Output (monthly change)	-9.1841	0.0000	Stationary

EMPIRICAL RESULTS

A. Predictive Model: PMI Does Not Lead Markets

Using the PMI and Future Output change variables for a regression as well as lagging them by a month proved that none of the lagged coefficients are statistically significant at the 5% level.

Table 3. Predictive (lagged) model results — no coefficient is significant at the 5% level.

Dependent Variable	Lagged Predictor	P-value	Significant?
Eurobond Return	PMI Change (t-1)	0.485	No
Eurobond Return	Future Output Change (t-1)	0.134	No
SOLIDERE B Return	PMI Change (t-1)	0.176	No
SOLIDERE B Return	Future Output Change (t-1)	0.089	No (10% only)

This result rules out PMI as a leading indicator for Lebanese asset prices over this sample.

B. Contemporaneous Model: A Split Between Bonds and Stocks

Removing the lag and testing whether the variables move together within the same month produces a markedly different picture. A simple regression of Eurobond returns on PMI Monthly Change alone is statistically significant ($p = 0.0354$), with a coefficient of 0.0097—A one-point increase in the monthly change of the headline PMI corresponds to approximately a +0.97% log return (or a 0.97% price increase) in Eurobond returns, explaining 4.35% of the variance ($R^2 = 4.35\%$). However, when examining the Future Output subindex individually, the link to sovereign debt becomes even stronger: A one-point increase in the monthly change of the Future Output subindex corresponds to approximately a +0.40% log return (or a 0.4% price increase) in Eurobonds that same month, with a higher explanatory power ($R^2 = 6.87\%$). This confirms that Eurobond pricing is substantially more sensitive to forward-looking operational sentiment than to headline PMI momentum.

Table 4. Contemporaneous model results across both assets.

Asset	Variable	Coefficient	P-value	Model R^2
Eurobond	Future Output Change	0.0040	0.0078	6.87%
Eurobond	PMI Change	0.0097	0.0354	4.35%

Asset	Variable	Coefficient	P-value	Model R ²
SOLIDERE B	Future Output Change	0.0003	0.8231	0.05%
SOLIDERE B	PMI Change	0.0075	0.1006	2.67%

On the Other hand, SOLIDERE B shows no statistically significant relationship with either of the PMI variables in the contemporaneous model, and the fit is minimal.

C. Eurobonds: Testing with Default Dummy

To improve the fit, PMI Change and Future Output Change were each re-tested on the Eurobond sample alongside a dummy variable marking the period after Lebanon's sovereign default (1 = post-default, 0 = pre-default), across four horizons: contemporaneous (lag 0) and lags of one, two, and three months.

The macro relationship is only close to significant, at lag 0. None of the lag-1, lag-2, or lag-3 coefficients for either PMI Change or Future Output Change approach the 5% threshold.

Table 5. PMI Monthly Change at lags 0–3, Eurobond model with post-default dummy. The post-default dummy is significant at every horizon; the PMI coefficient is only marginally significant (10% level) at lag 0.

Specification	Coefficient	P-value	Dummy P-value	Model R ²
Lag 0 (contemporaneous)	0.0087	0.057	0.022	9.32%
Lag 1	-0.0016	0.728	0.013	6.28%
Lag 2	0.0025	0.582	0.012	6.58%
Lag 3	-0.0022	0.639	0.011	6.73%

Future Output Monthly Change

Table 6. Future Output Monthly Change at lags 0–3, Eurobond model with post-default dummy. The lag-0 coefficient is the strongest and most significant result in the entire study ($p = 0.007$, $R^2 = 12.57\%$).

Specification	Coefficient	P-value	Dummy P-value	Model R ²
Lag 0 (contemporaneous)	0.0039	0.007	0.013	12.57%
Lag 1	0.0020	0.171	0.013	7.95%
Lag 2	0.0003	0.867	0.012	6.32%
Lag 3	-0.0026	0.088	0.009	9.33%

Two results stand out. First, the contemporaneous Future Output Change specification produces the strongest and cleanest result in the entire study: a one-point increase in the monthly change of the Future Output subindex leads to a 0.39% increase in Eurobond log returns in the same month (or a 0.39% price increase) at $p = 0.007$, with the model explaining 12.57% of return variance — the highest R² obtained under any specification tested. Second, the post-default dummy is statistically significant ($p < 0.05$) in every single specification across both variables and all four lags, without exception.

The lag-3 Future Output coefficient ($p = 0.088$) is worth flagging separately: it is negative (-0.0026) and only marginally significant at the 10% level, the opposite sign from the strongly positive lag-0 relationship. Given that none of the intervening lags (1 and 2) are significant, this is best read as noise rather than a genuine delayed effect, and it does not change the core conclusion that PMI-related information is priced within the same month, not with a lag.

D. Stocks: Testing with Default Dummy

The same lag-structure exercise was repeated for SOLIDERE B, alongside a dummy variable marking the period after the onset of Lebanon's 2019 financial crisis (1 = post-crisis, 0 = pre-crisis).

SOLIDERE B — PMI Monthly Change

Table 7. SOLIDERE B: PMI Monthly Change at lags 0–3, model with post-2019-crisis dummy. No PMI coefficient reaches 5% significance at any horizon.

Specification	Coefficient	P-value	Dummy P-value	Model R ²
Lag 0 (contemporaneous)	0.0076	0.092	0.083	5.60%
Lag 1	-0.0045	0.328	0.091	3.77%
Lag 2	0.0001	0.986	0.078	3.16%

Specification	Coefficient	P-value	Dummy P-value	Model R ²
Lag 3	-0.0041	0.376	0.088	3.82%

SOLIDERE B — Future Output Monthly Change

Table 8. SOLIDERE B: Future Output Monthly Change at lags 0–3, model with post-2019-crisis dummy. The lag-2 coefficient is significant ($p = 0.030$).

Specification	Coefficient	P-value	Dummy P-value	Model R ²
Lag 0 (contemporaneous)	0.0003	0.815	0.091	2.90%
Lag 1	0.0021	0.158	0.092	4.79%
Lag 2	-0.0032	0.030	0.071	7.76%
Lag 3	-0.0017	0.283	0.083	4.19%

Stocks show no consistent sensitivity to macro indicators, as most PMI and Future Output coefficients are statistically insignificant across lags and specifications. The apparent two-month lagged effect is unlikely to reflect a real transmission mechanism as it does not survive across other lags or variables.

DISCUSSION

A. Eurobonds

The empirical findings for Lebanese Eurobonds reveal a genuine yet fragile link between sovereign debt pricing and the Future Output subindex.

In the context of defaulted sovereign debt, traders do not price Eurobonds on conventional yield-to-maturity metrics. Instead, they trade on **expected recovery values and restructuring dynamics**. Market participants are continuously pricing key restructuring parameters, including:

- **The Expected Nominal Haircut:** The baseline principal reduction required to bring debt down to sustainable levels.
- **Exit Yields and Discount Rates:** The prevailing market rate at which newly issued post-restructuring instruments will trade.
- **Timeline and Settlement Probability:** The anticipated duration of the debt workout and the likelihood that a future government will punctually honor post-restructuring obligations.

Because these structural parameters depend significantly on the country's security stability and political consensus, **political and geopolitical developments act as the primary catalyst for Lebanese market sentiment.**

Even ambitious structural reform proposals fail to generate meaningful economic output during active geopolitical conflicts. War creates a structural drag on sovereign solvency through two direct channels:

1. **Fiscal Deterioration (The Revenue-Cost Squeeze):** Conflict simultaneously decreases the state's revenues and spikes emergency spending, particularly for supporting Internally Displaced Persons (IDPs) and emergency infrastructure repair.
2. **Policy Displacement and Institutional Friction:** During wartime, national priorities inevitably pivot away from complex, long-term structural reforms such as banking sector restructuring. Emergency crisis management takes precedence, delaying the implementation of recovery programs necessary to achieve fiscal sustainability.

Interestingly, political and geopolitical developments impact on the economic side holds true for the Future Output subindex as well. Heightened uncertainty and geopolitical risk are often mentioned in the BLOM Lebanon PMI reports as reasons to be pessimistic—and vice versa—explaining the strong correlation between future output sentiment and Lebanese Eurobond returns.

B. Stocks

The complete disconnect between PMI metrics and SOLIDERE returns highlights how local market participants evaluated the stock during the crisis. Equities listed on the Beirut Stock Exchange (BSE) were traded in "Lolars"—trapped Dollars in Lebanese banks. Because the true final recovery value of bank deposits remains uncertain, investors viewed SOLIDERE shares as a superior, tangible equity claim whose ultimate real valuation is widely expected to outperform whatever residual settlement depositors eventually receive once the "Lolar" crisis is resolved. Consequently, SOLIDERE functioned primarily as a strategic capital preservation hedge against banking haircuts rather than a conventional asset priced on cyclical corporate earnings, explaining its complete decoupling from real-economy indicators like the PMI and Future Output subindex.

CONCLUSION

This paper investigates whether Lebanon's PMI leads or contemporaneously co-moves with local financial markets. The empirical evidence rejects the leading-indicator hypothesis across all assets. However, a significant contemporaneous relationship emerges between changes in the Future Output subindex and Eurobond returns. Controlling for a structural break at the March 2020 sovereign default via a dummy variable yields the study's strongest specification ($p = 0.007$, $R^2 = 12.57\%$). Incorporating this regime shift nearly doubles the model's explanatory power from an unadjusted R^2 of 6.87%, demonstrating that forward sentiment and structural default dynamics independently drive sovereign bond pricing. With an R^2 of 12.57%, the model accounts for a meaningful but modest share of Eurobond price variation, consistent with the expectation that many other factors, such as restructuring negotiation headlines, IMF prerequisites laws progress, and regional geopolitical events, also materially influence price dynamics. These factors' influence do not undermine the statistical finding but should temper its use as a standalone trading signal. SOLIDERE equities, by contrast, show essentially no measurable relationship with PMI data and the Future Output subindex. The most coherent explanation is currency and market structure: Eurobonds are dollar-denominated instruments, while SOLIDERE shares trade within a distorted local 'Lolar' framework, functioning primarily as a store of value hedge against the devaluation of Lolars.

For your Queries:

BLOMINVEST BANK s.a.l.

Research Department

Zaituna Bay

POBOX 11-1540 Riad El Soloh

Beirut 1107 2080 Lebanon

Mira Said

mira.said@blom.com.lb

Research Department

Tel: +961 1 991 784

research@blom.com.lb

Disclaimer

This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.