International Monetary Fund

July 18, 2018

Global Financial Stability

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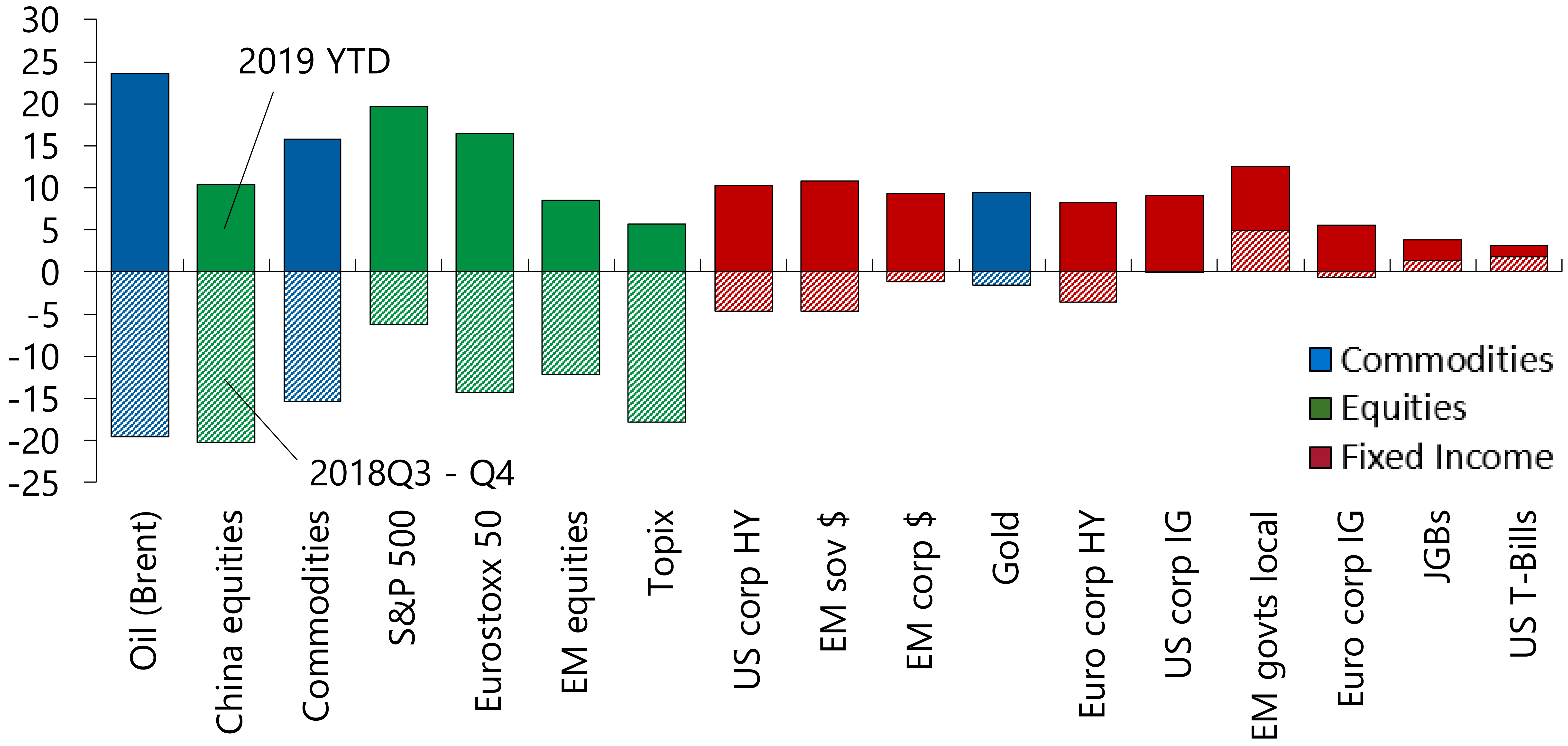
Financial Markets Have Recovered from 2018 Losses

Markets sold off in 2018, but have generally recouped their losses so far this year

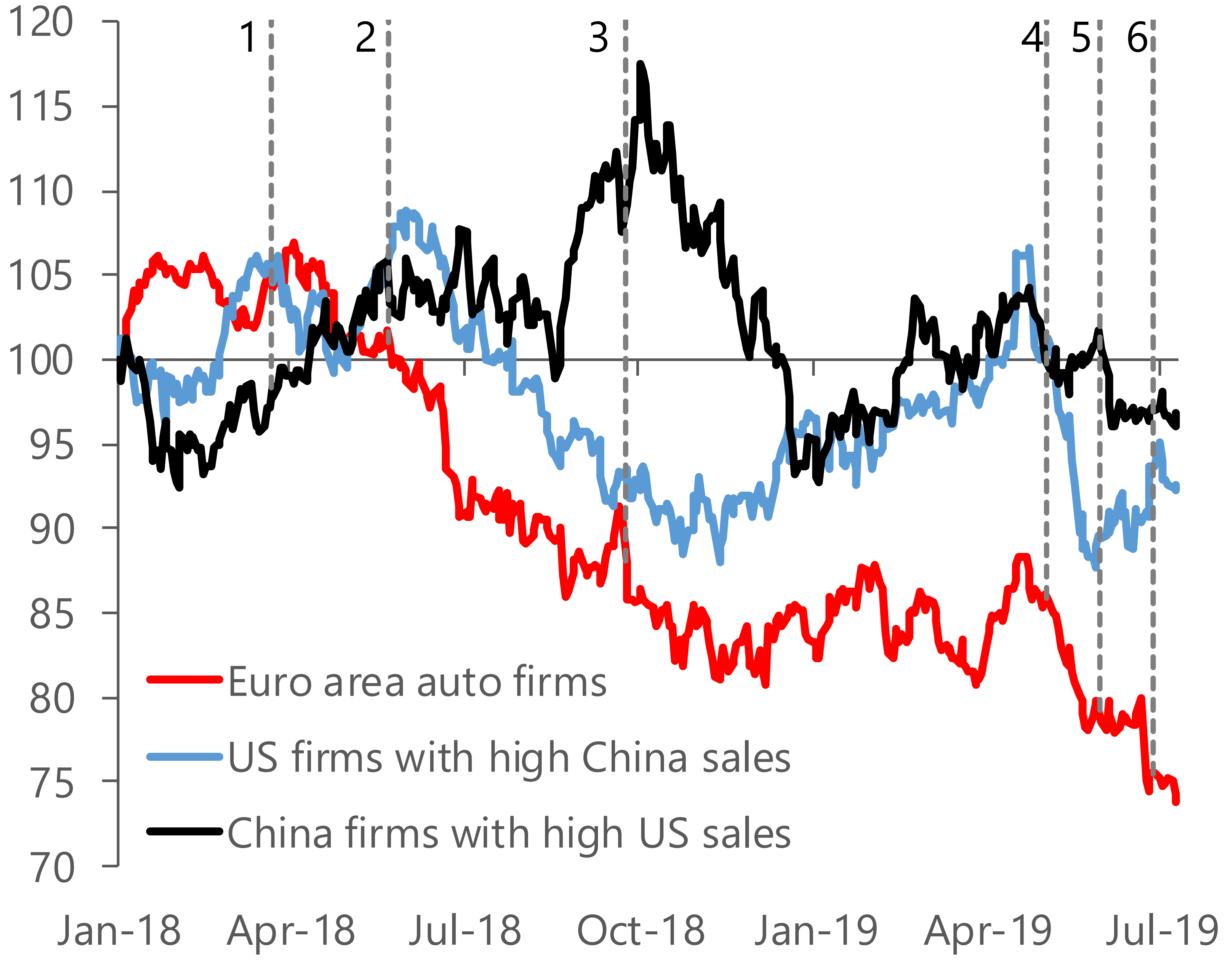
Returns by Asset Class
(Percent)



Risk Assets Have Reflected the Ebb and Flow of Trade Tensions

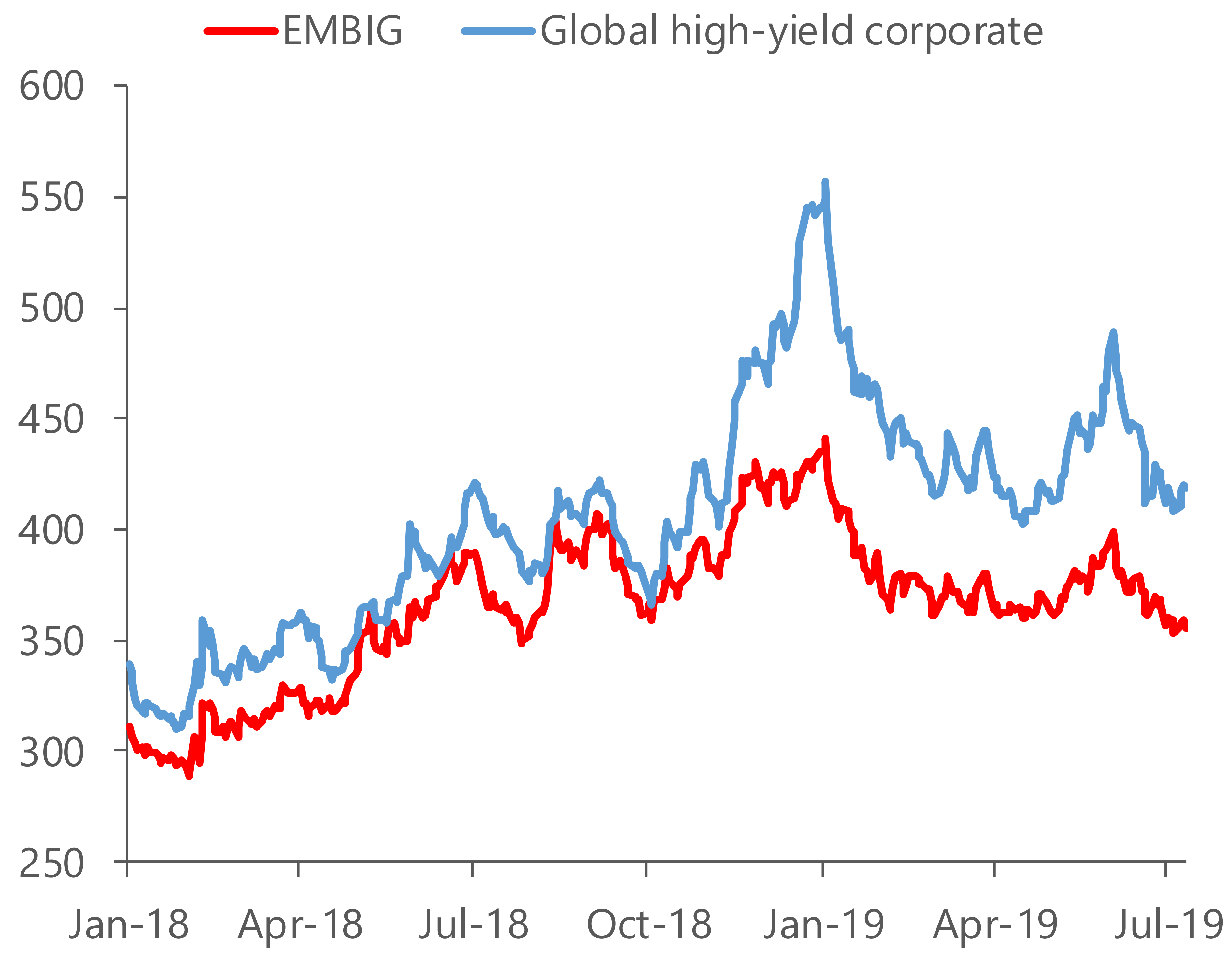
Trade tensions weighed on equity and credit markets

Relative Equity Performance of Trade-sensitive Firms
(Relative to benchmark, index to March 2018)



Note: 1. US initiated national security investigation into autos; 2. US announced 25% tariff on $50 bn Chinese goods; 3. US implemented 10% tariff on $200 bn of Chinese goods; 4. US tariff on $200 bn of Chinese goods hiked to 25%; 5. June FOMC meeting when policy rate expectations were revised lower; 6. G20 meeting.

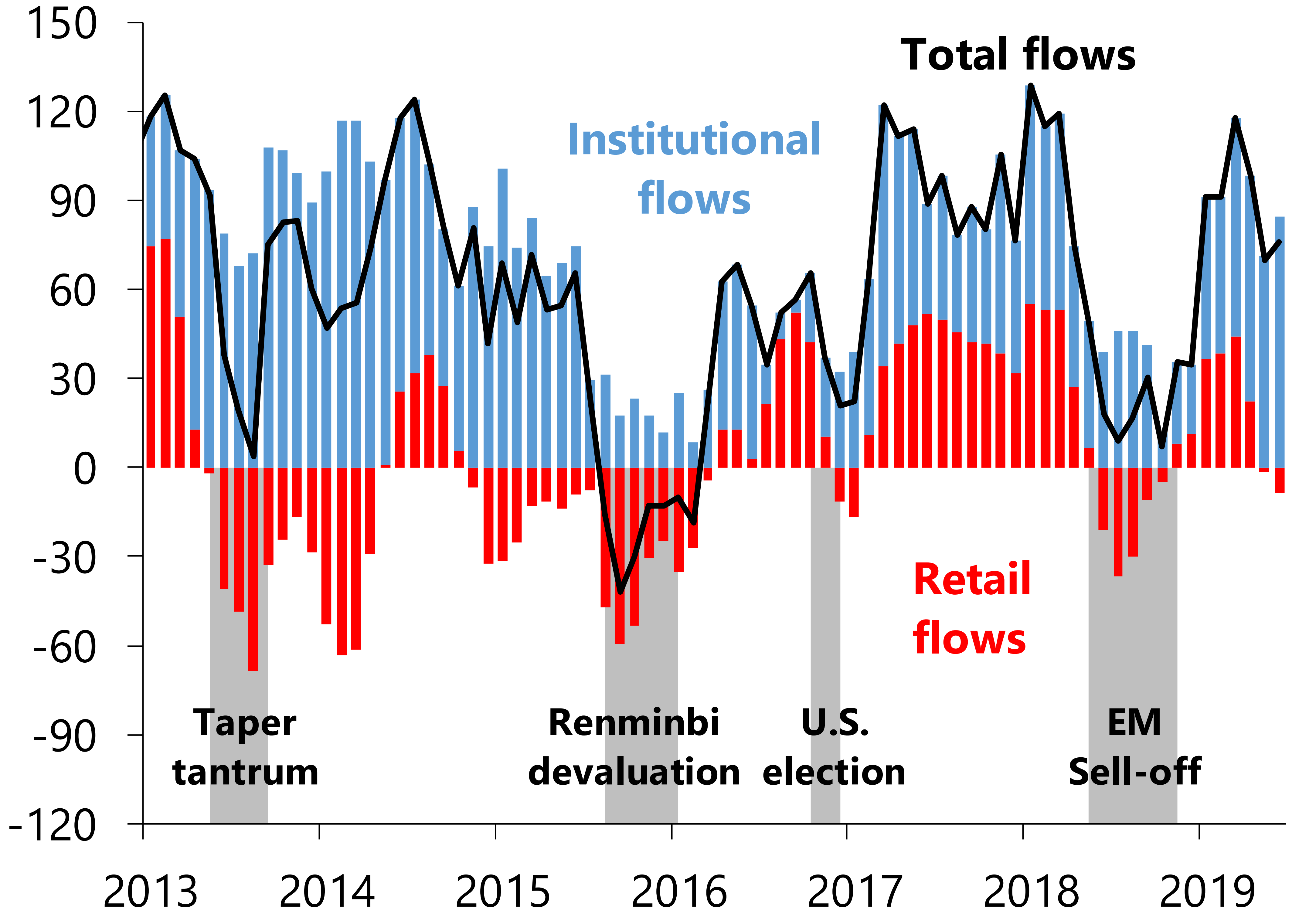
EM sovereign and Global High Yield Corporate Spreads
(Basis points)



EM Capital Flows Have Been Volatile

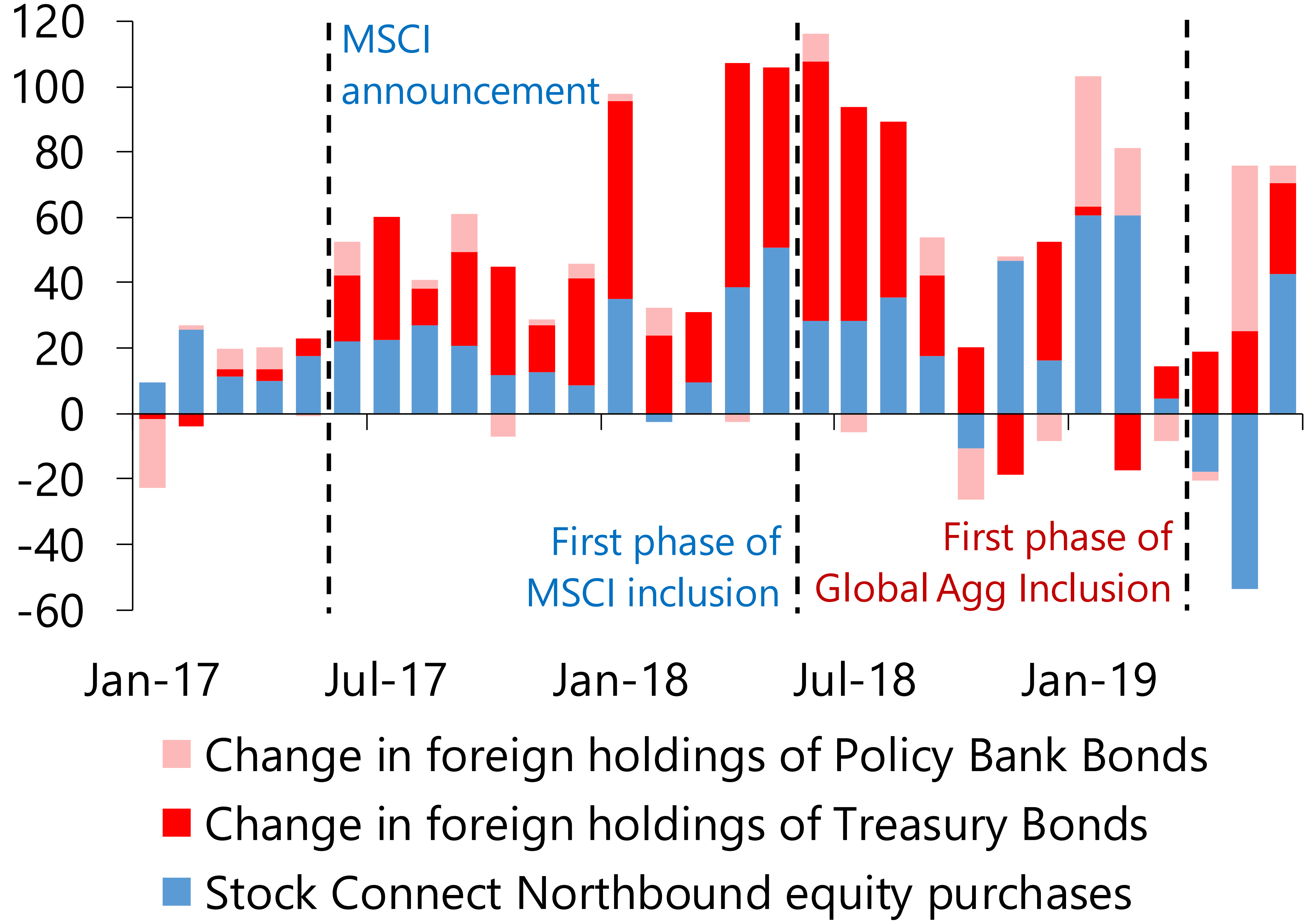
Growth and trade concerns have weighed on EM portfolio flows in recent months

EM Portfolio Flows by Investor Type
(USD billions; three-month rolling sum)



Bond flows to China have been strong after index inclusion

Index-Inclusion Related Flows to China
(RMB billions)

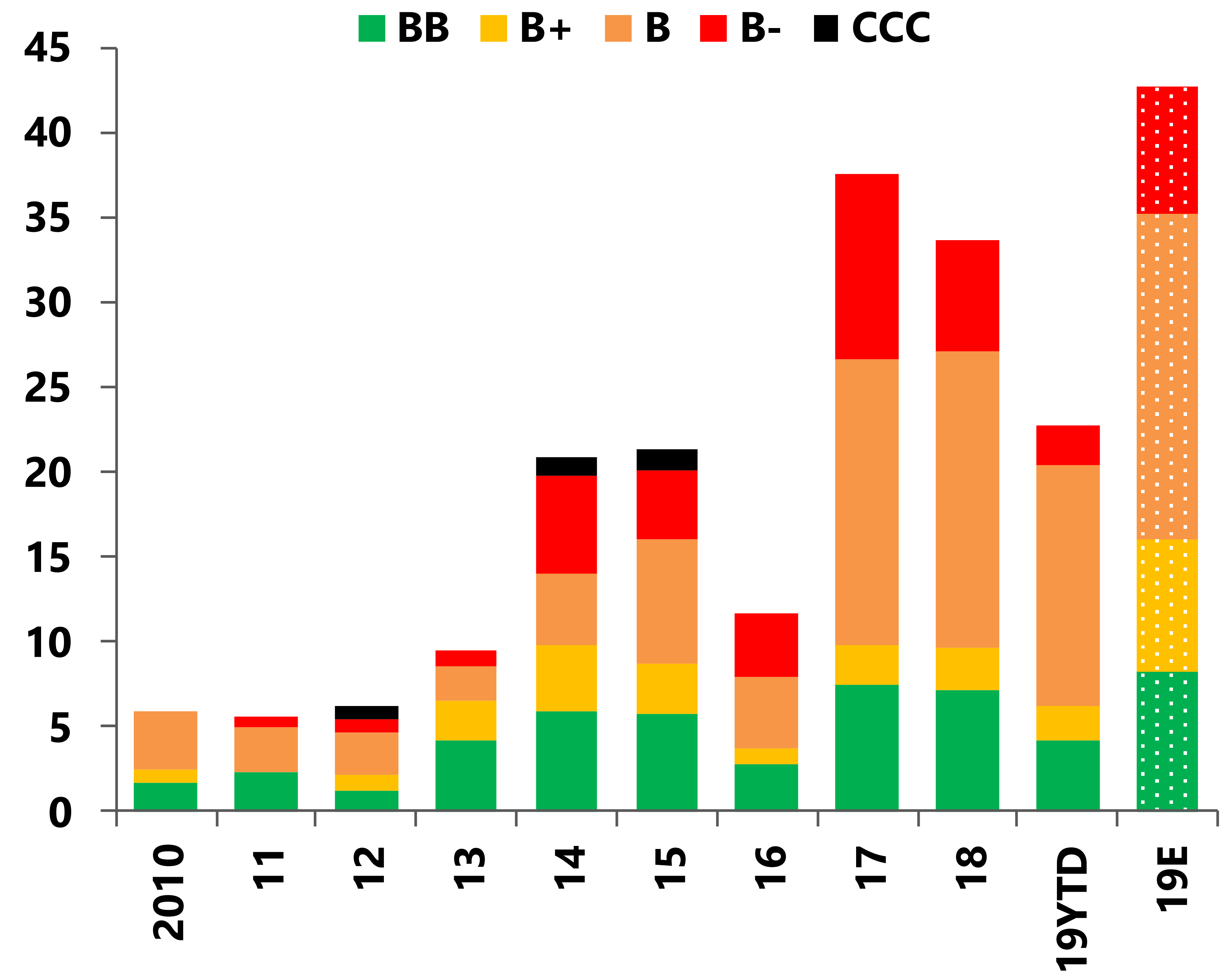


Market Conditions for Frontier Issuers Remain Favorable

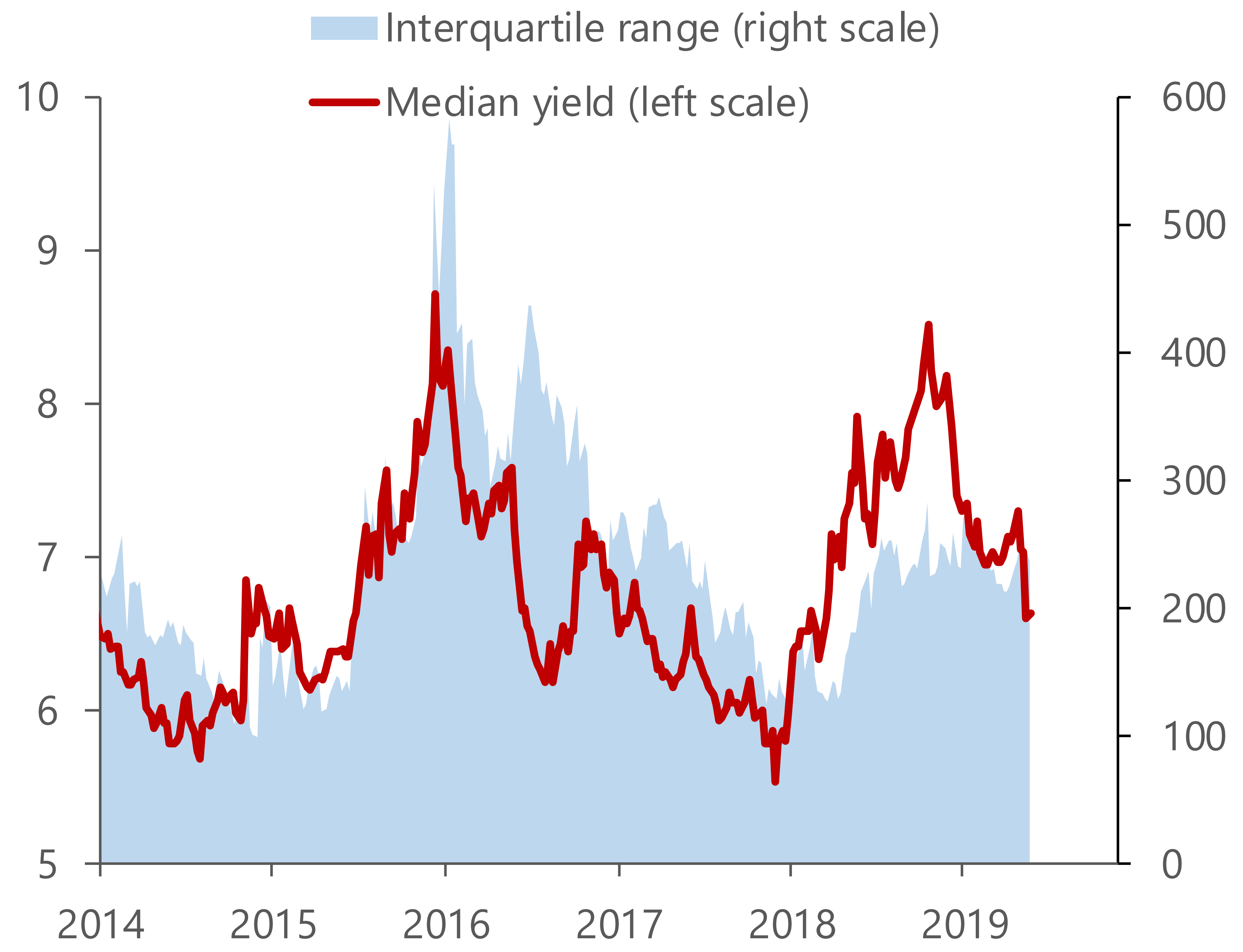
Issuance is expected to reach new highs in 2019…

… on favorable market conditions

Frontier Market Sovereign Issuance: Volume
(USD billions)



Frontier Market Sovereign Issuance: Price
(Percent; Basis points)

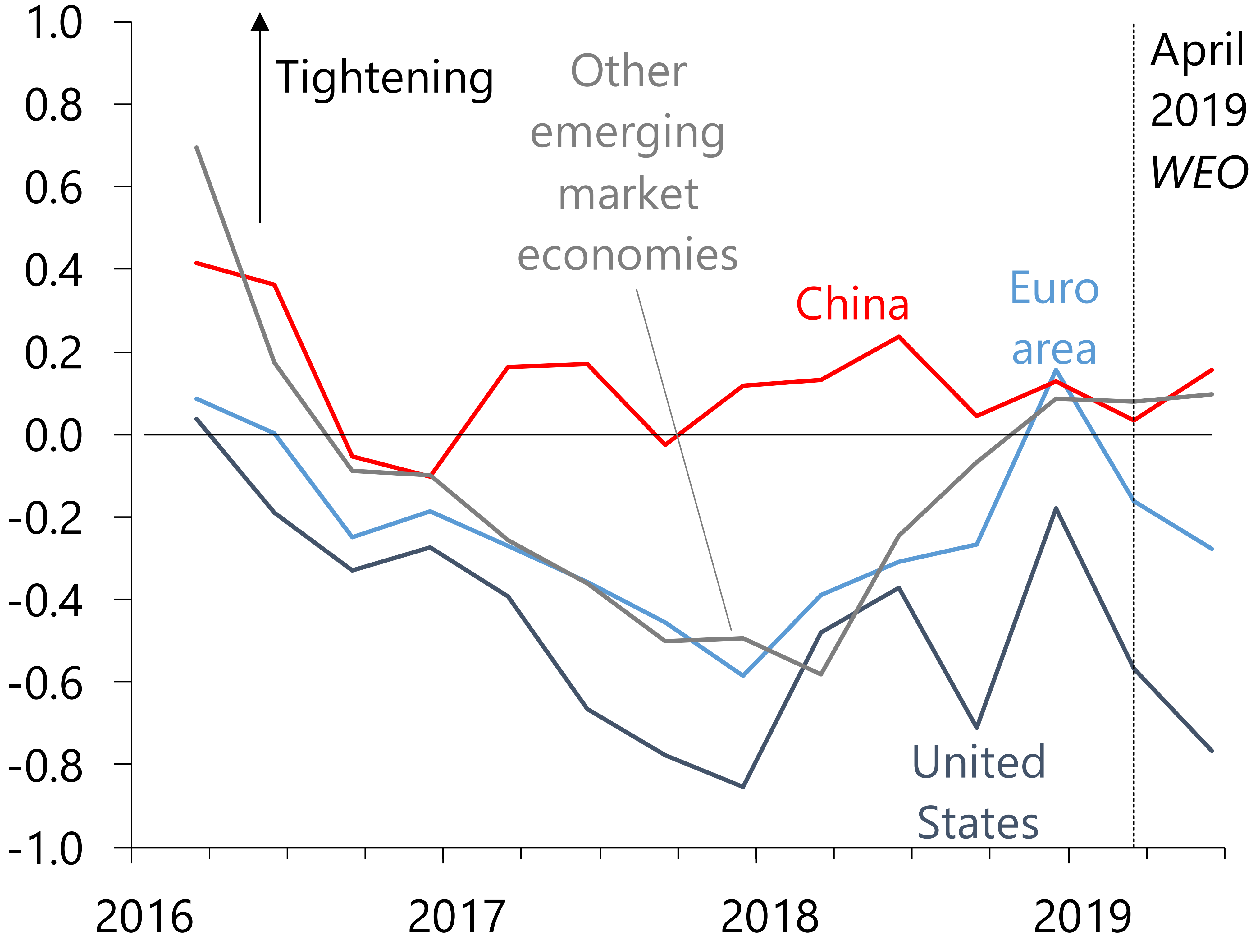


Financial Conditions Have Eased

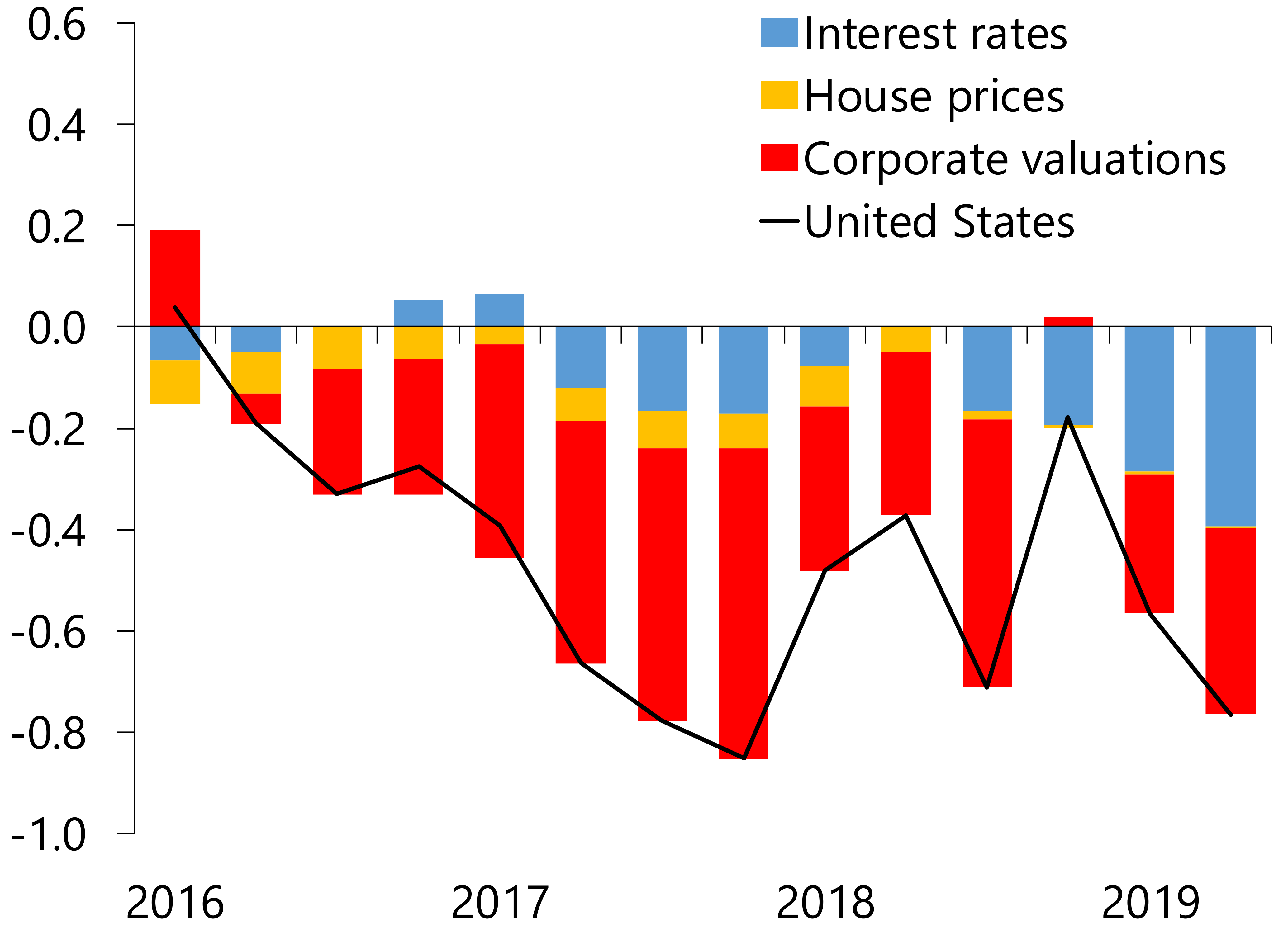
Financial conditions have eased in the US and euro area …

… as market interest rates have fallen

Financial Conditions Indices
(Standard deviations from mean)



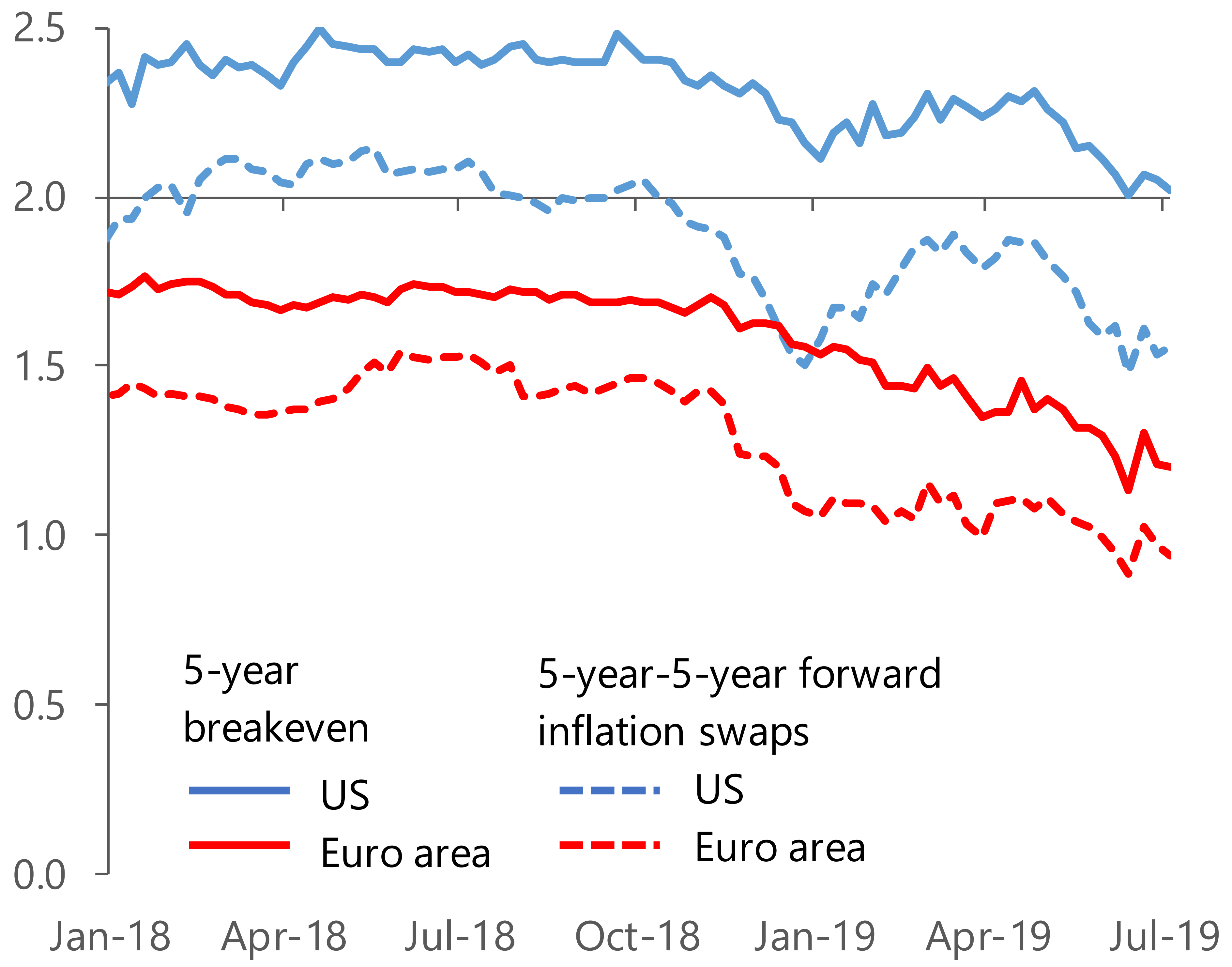
United States: Contributions to Financial Conditions
(Standard deviations from mean)



The Inflation Outlook Have Deteriorated

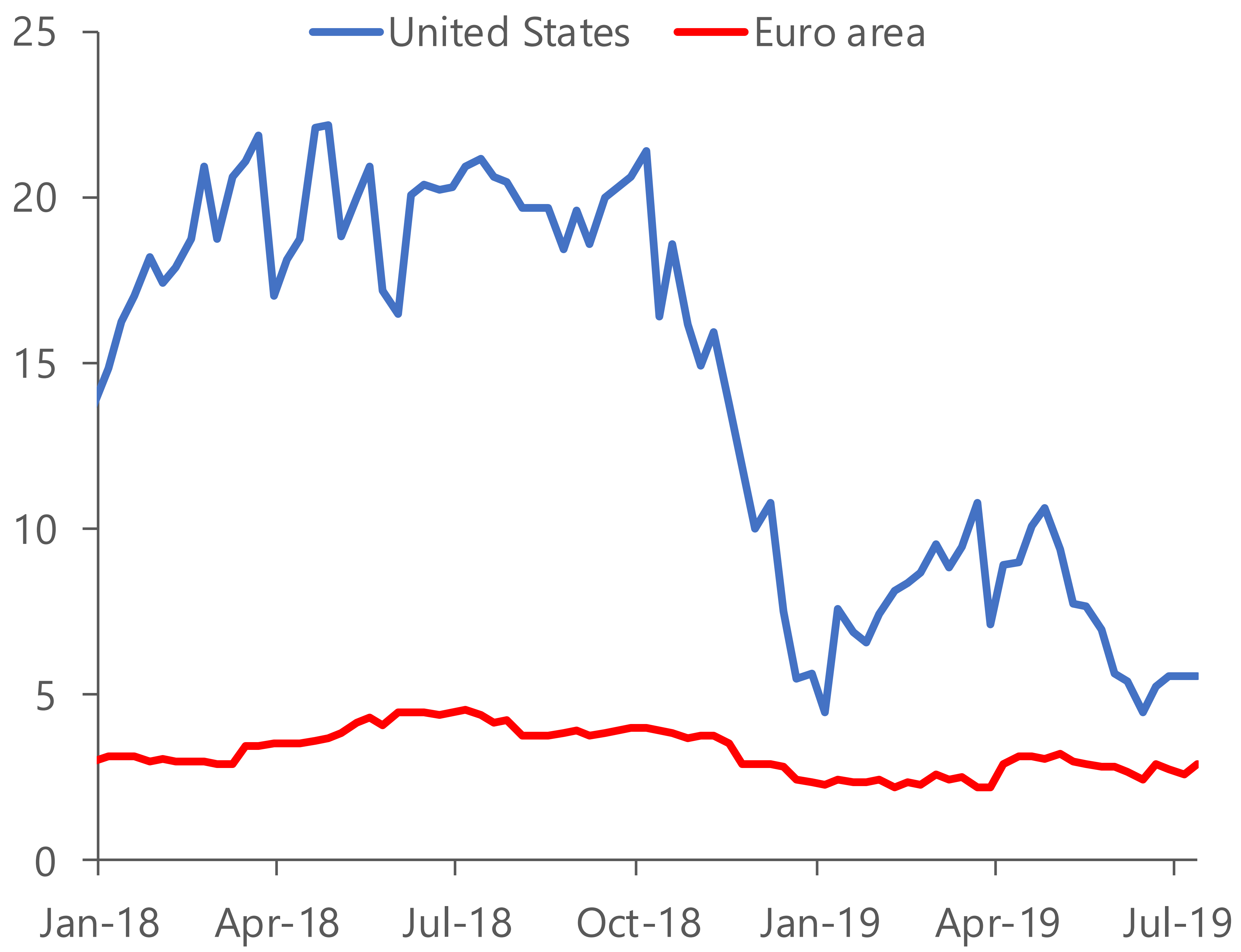
Market expectations of inflation have declined…

Market Expectations of Inflation
(Percent)



… along odds of high inflation.

Market Implied Probability of High Inflation
(Probability of CPI > 3% for 1 year in 5 years, percent)

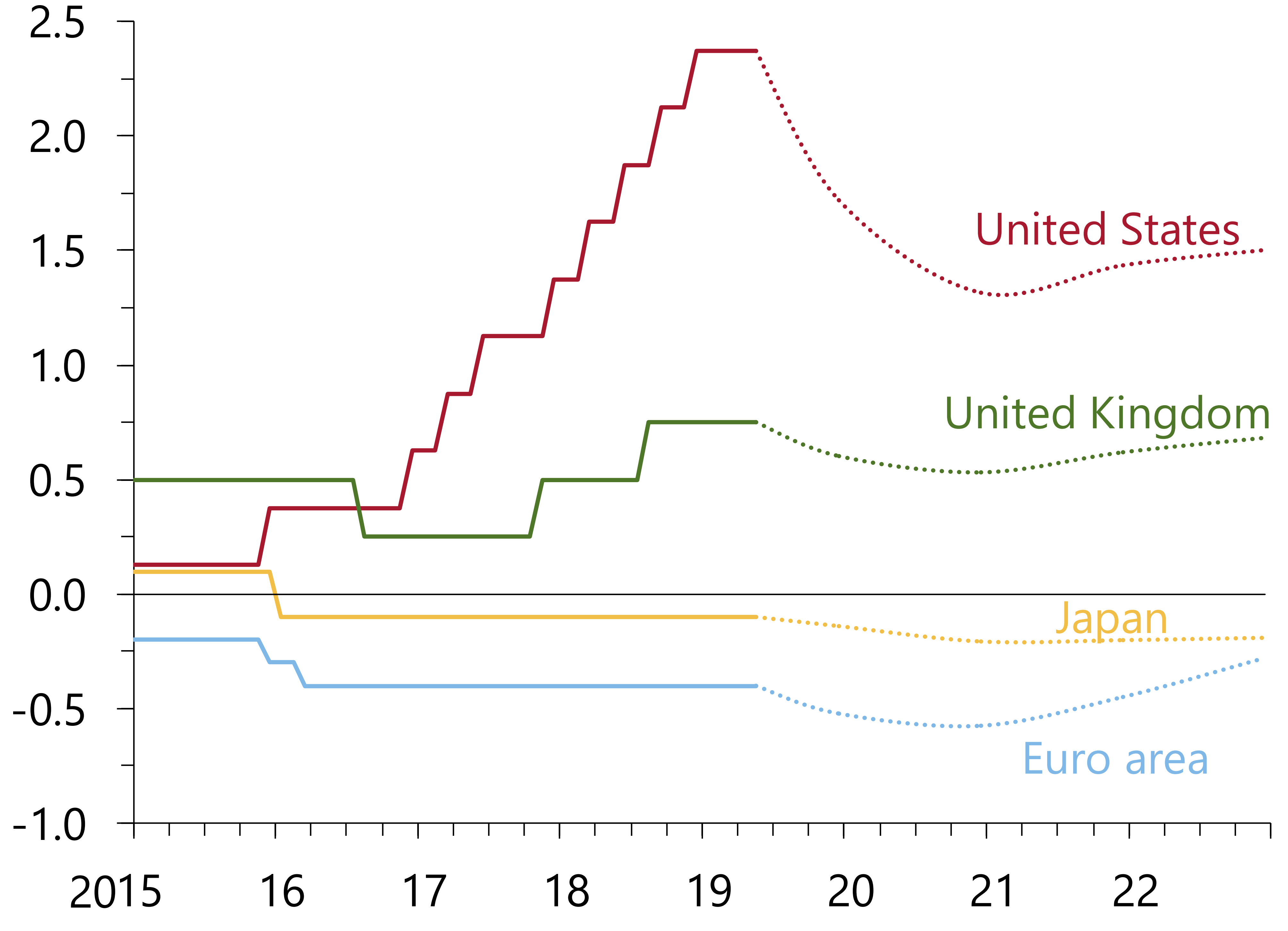


Investors Expect Monetary Policy Easing

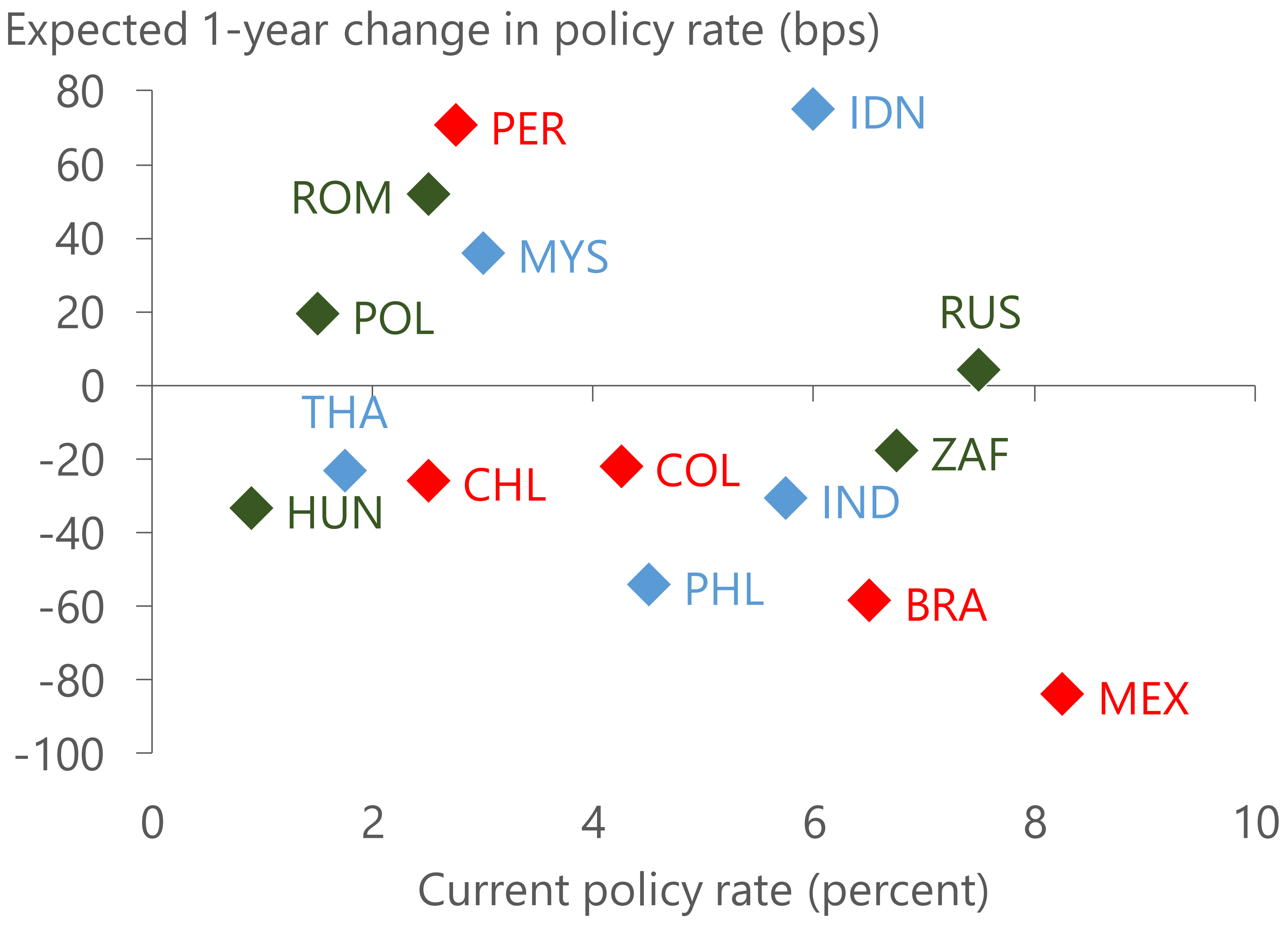
Further monetary policy easing is priced-in for AEs…

… as well as many EMs

Advanced Economy Policy Rates
(Percent)



Emerging Market Policy Rates

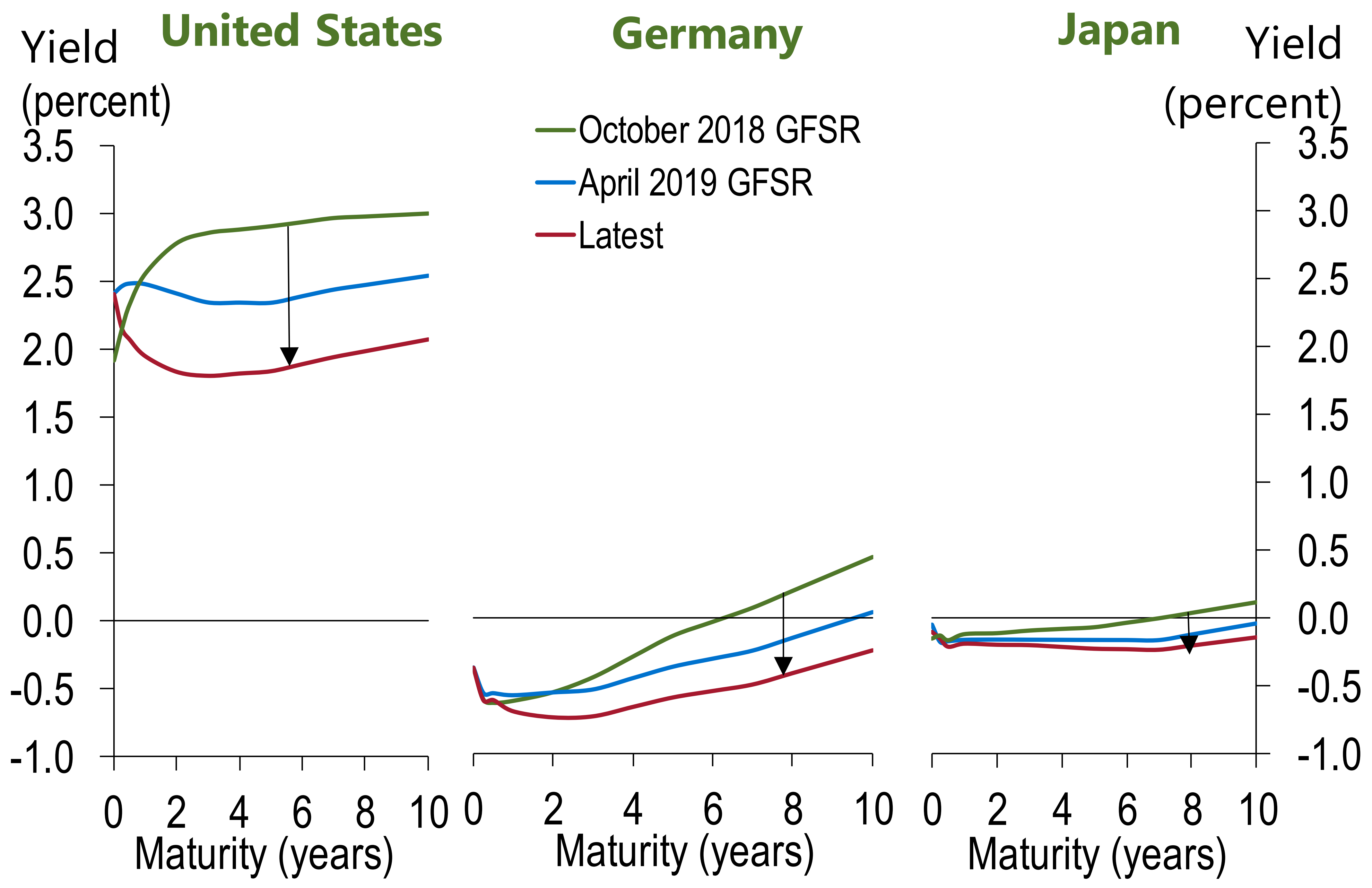


Global Bond Yields Have Declined Further

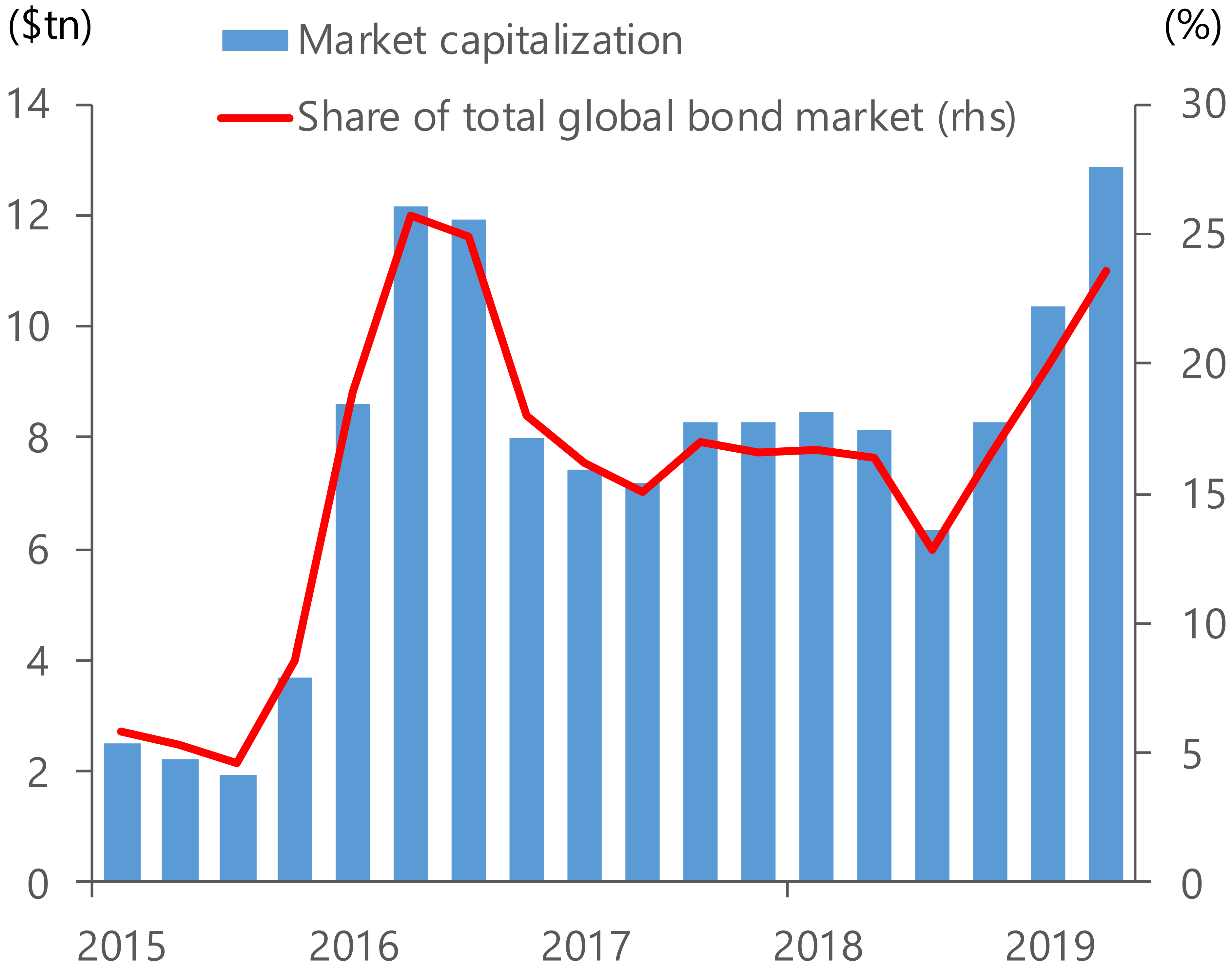
Global yields have fallen on expectations of policy easing …

… leading to a rise in negative-yielding bonds

Government Bond Yield Curves



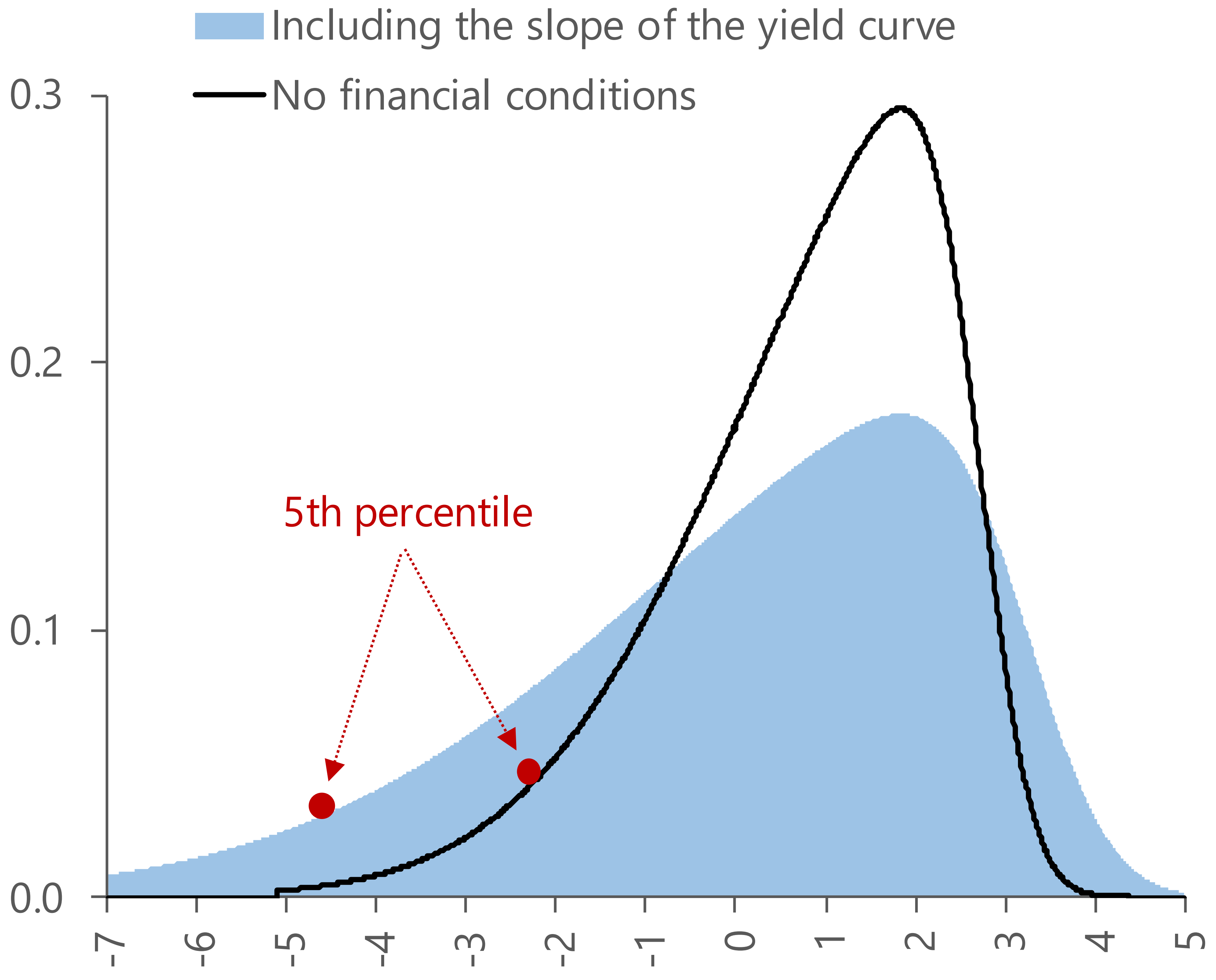
Global Bonds with Negative Yields



Inversion of the Yield Curve Points to Downside Risks to Growth

The tail of the distribution moves to the left when the yield curve is included

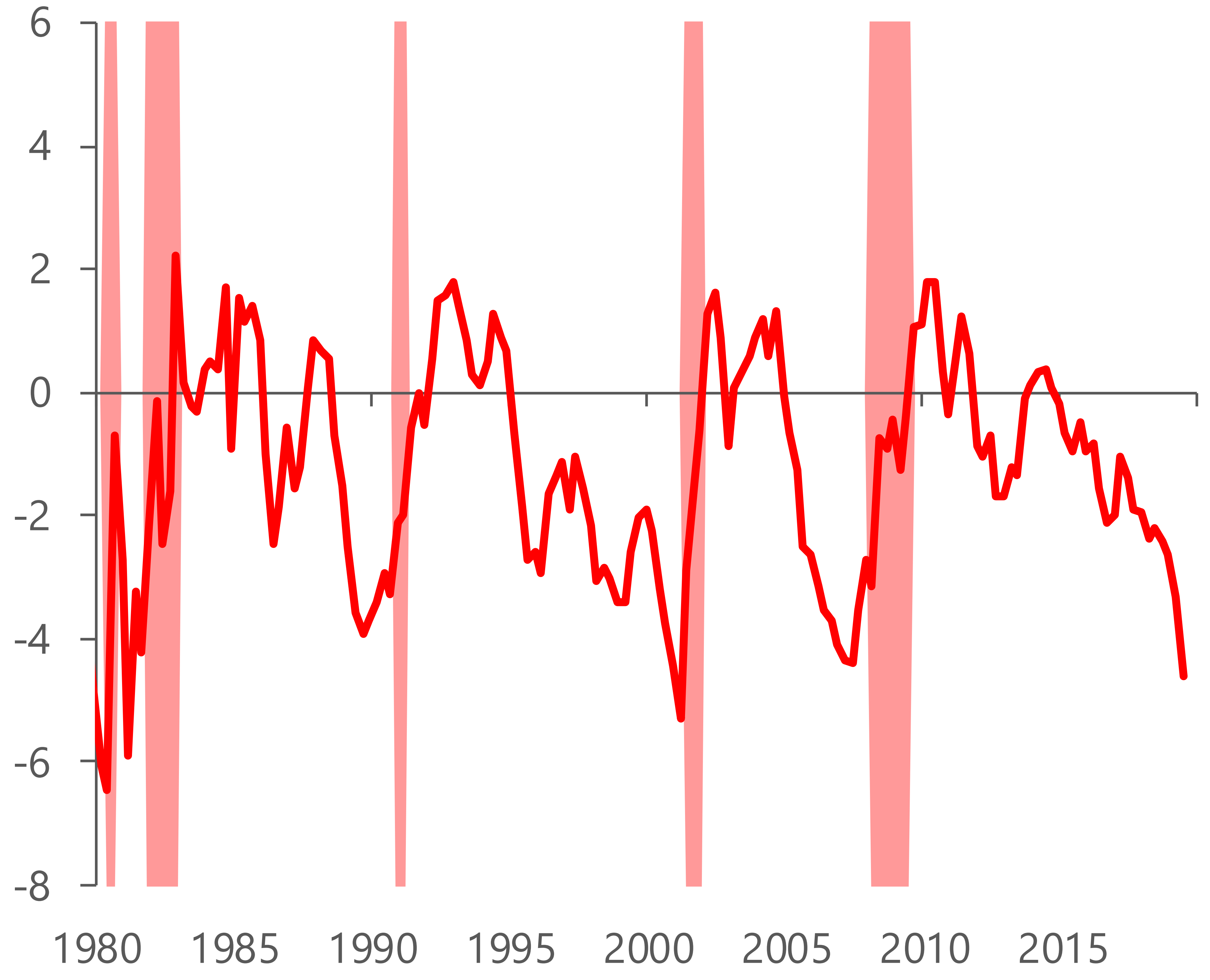
US Forecast Distribution: Conditional 1-year Ahead Real GDP Growth
(Percent)



Note: The slope is measured as the difference between 3-month and 10-year Treasury yields. This slope is used in the estimation instead of the financial conditions index.

Downside risk is higher ahead of recessions

US Downside Risks to GDP Growth
(Percent)

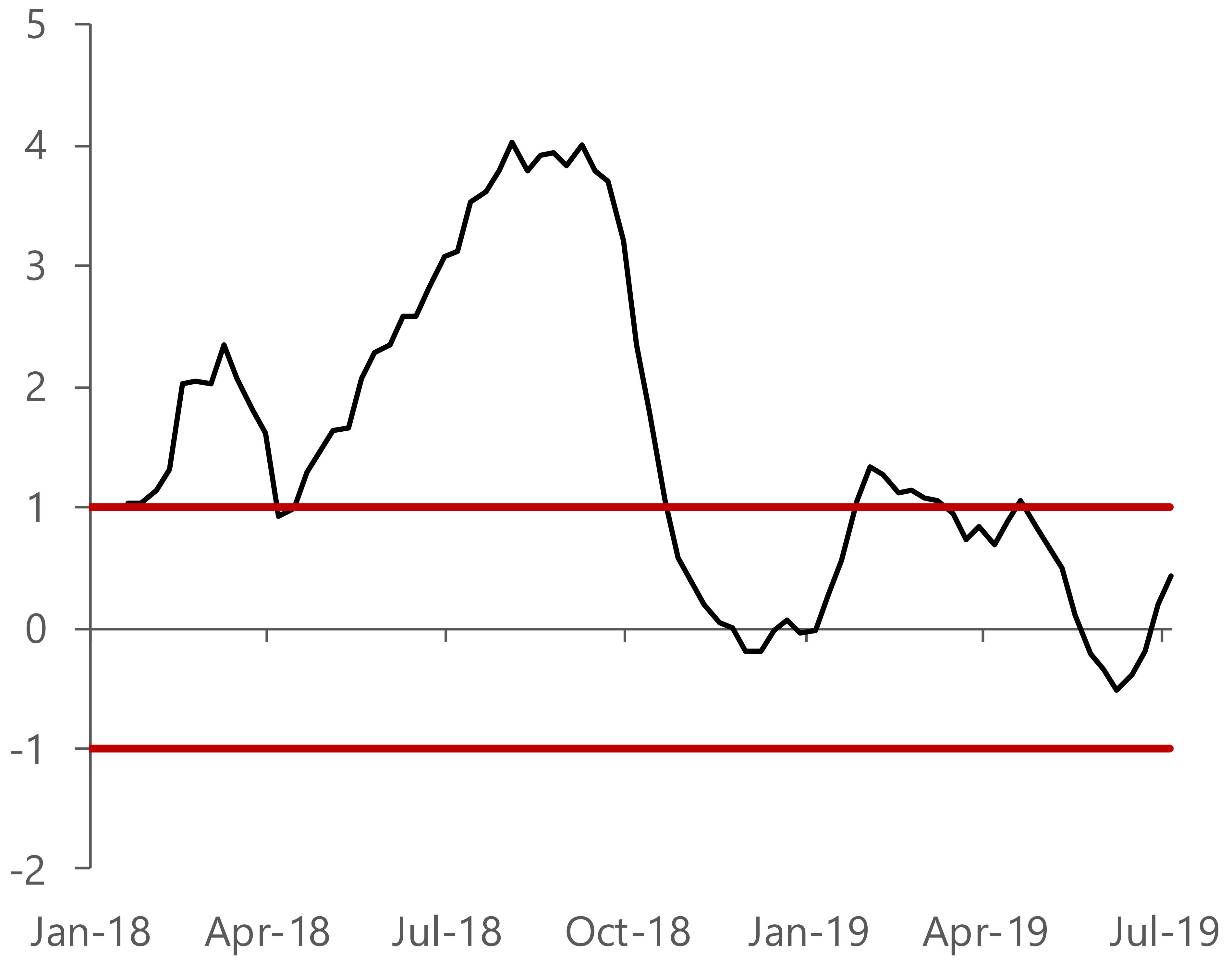


Investors Expect Risks to be Contained in the Short-term

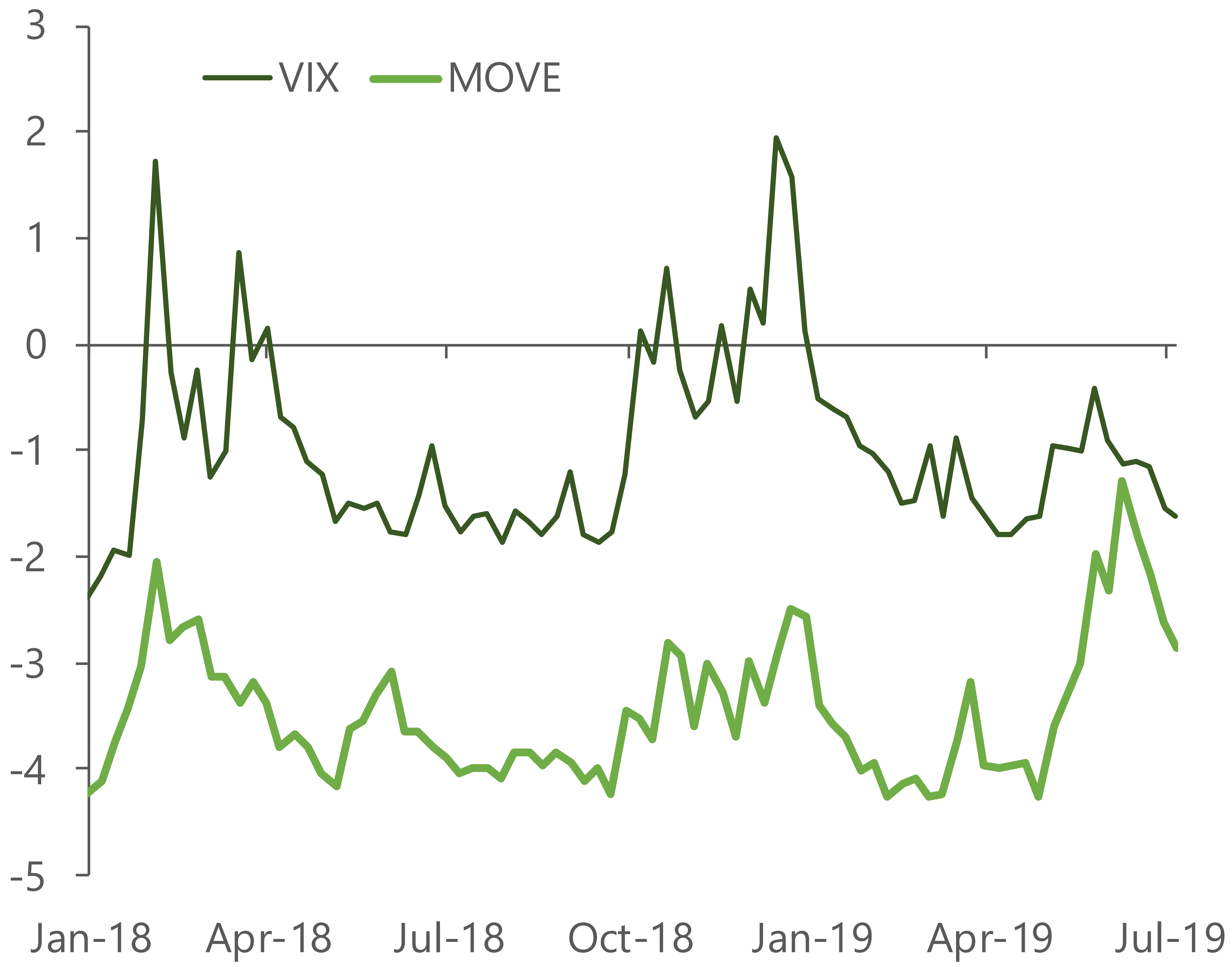
Equity investors believe downside risks are contained…

…and market volatility remains compressed

US Equity Skew Index
(Standard deviations from historical average)



US Equity and Bond Volatility
(Standard deviations from historical average)

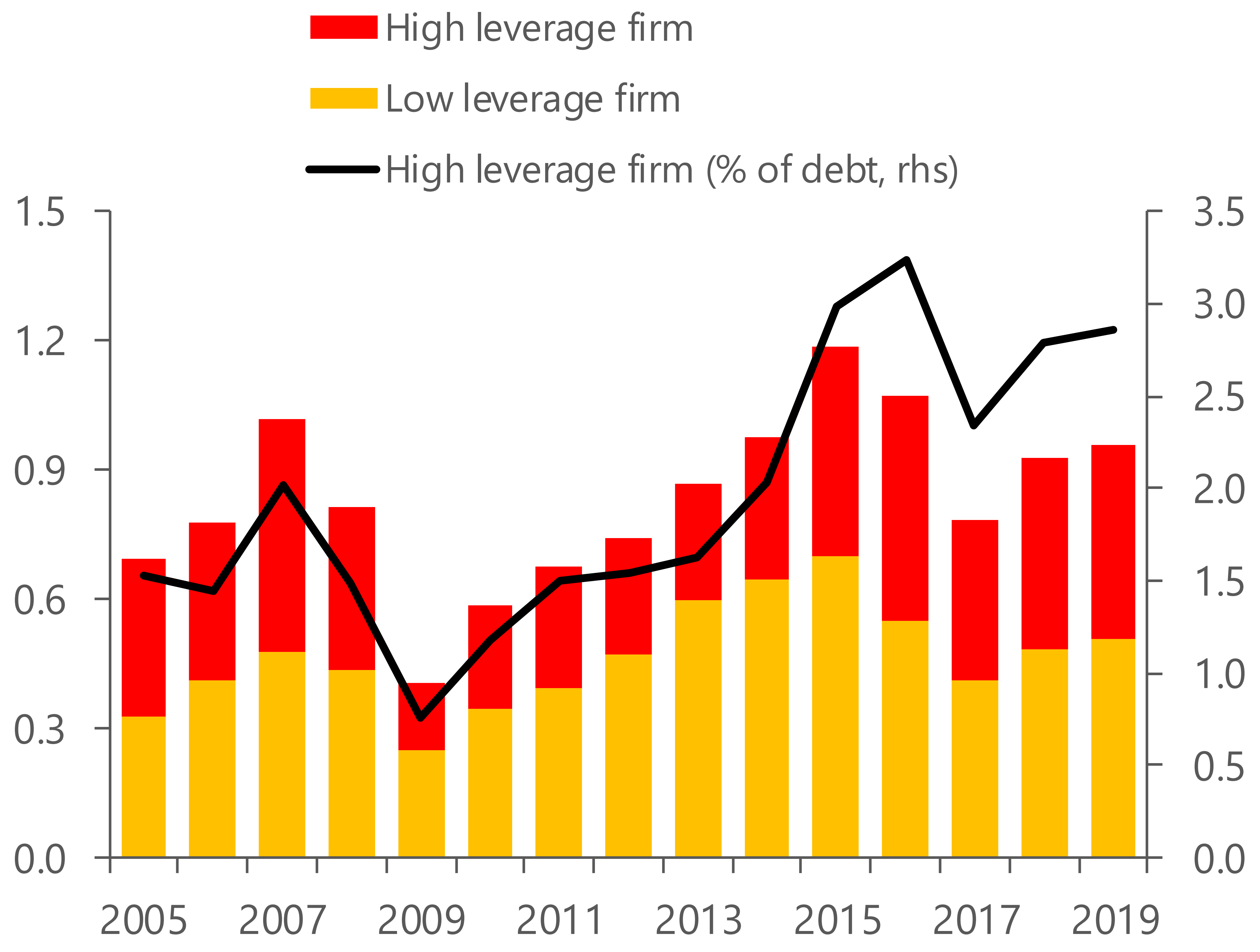


Easy Conditions Are Encouraging Corporate Financial Risk Taking

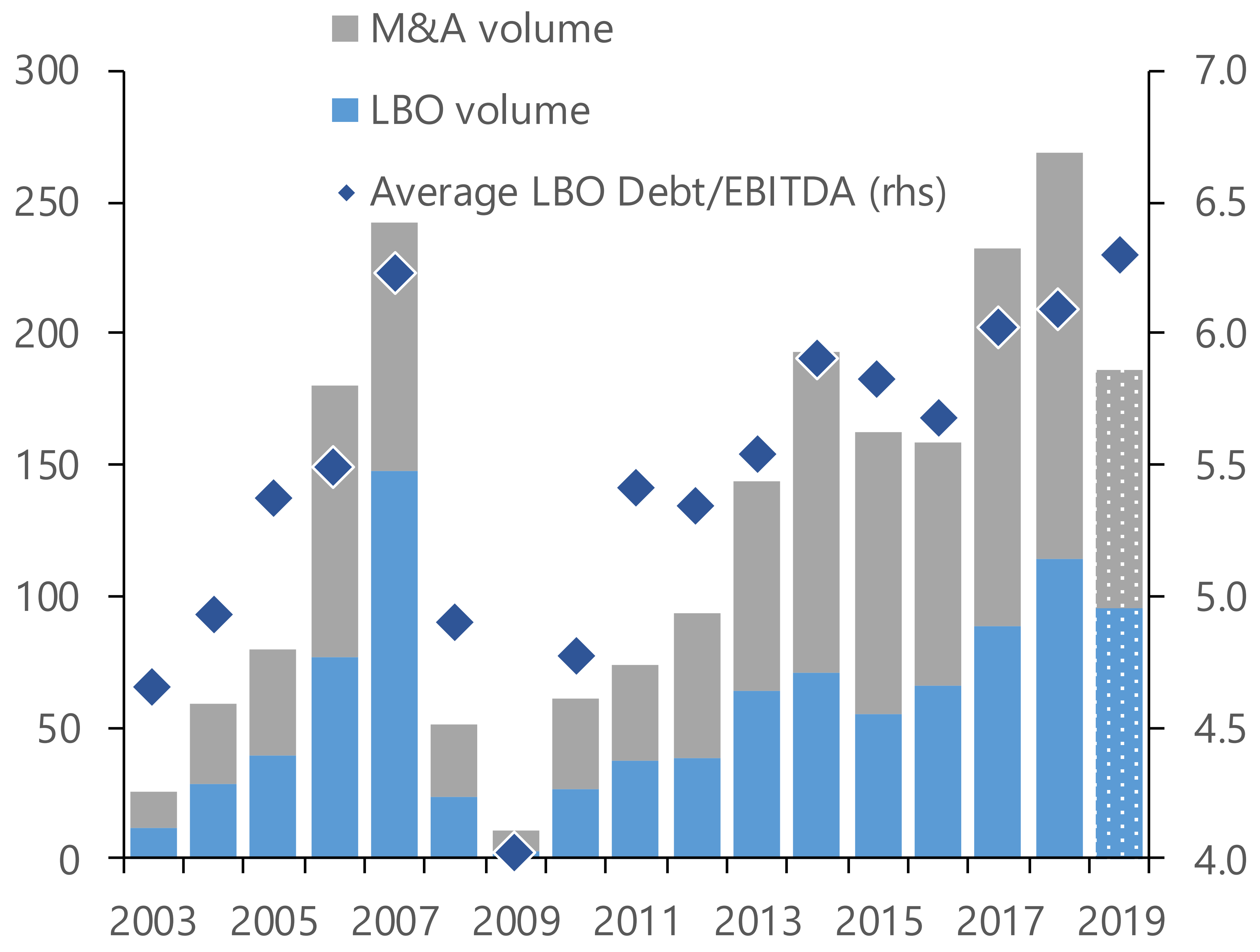
Debt-funded payouts by US firms have risen further …

… and leverage continues to rise

S&P500 Nonfinanical Firms: Debt-Funded Payouts
(Percent of assets; annualized)



US Leveraged Loan Market
(USD billions; Debt/EBITDA in multiples)

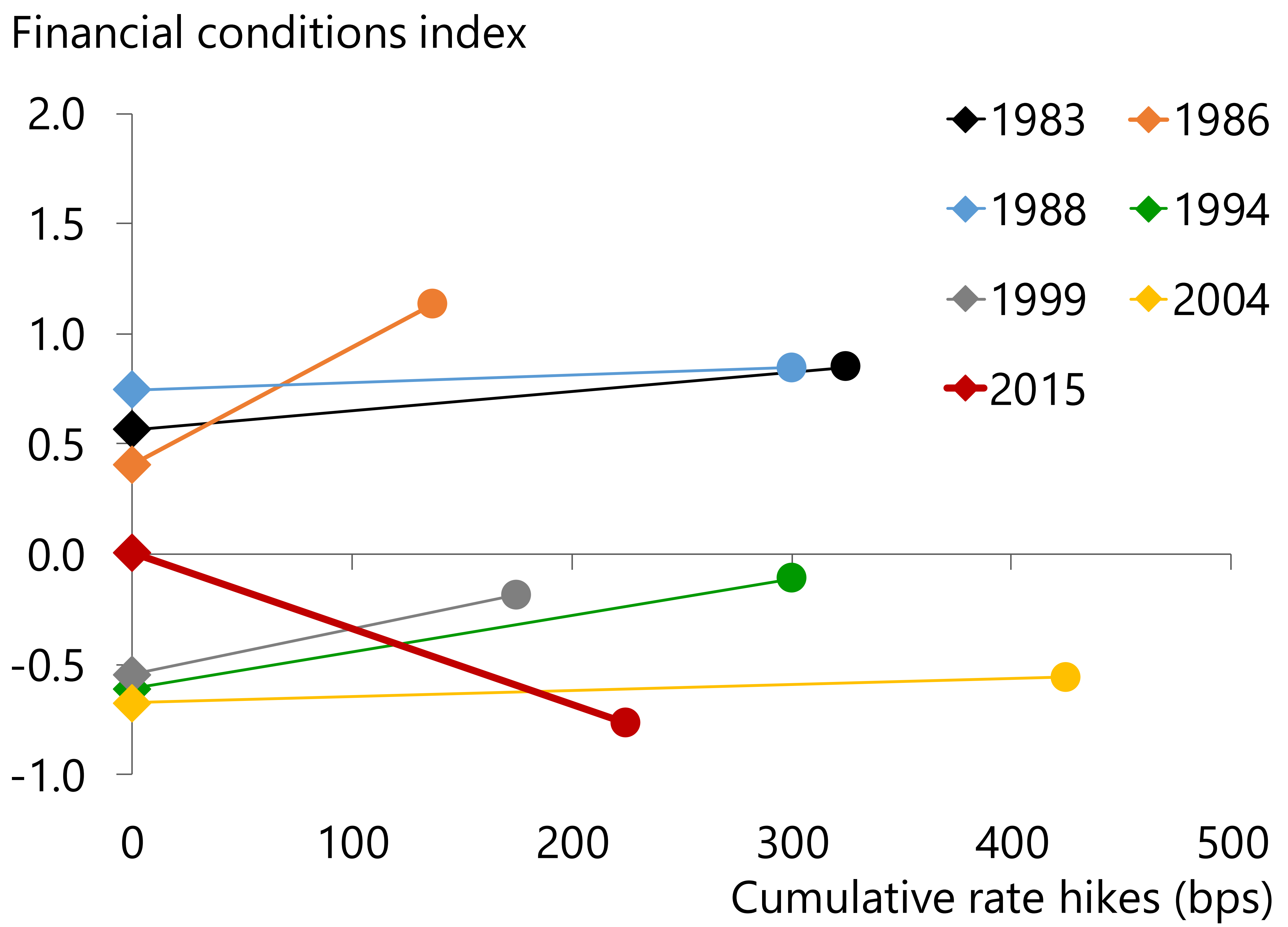


Note: annualized 2019 number based on data till May.

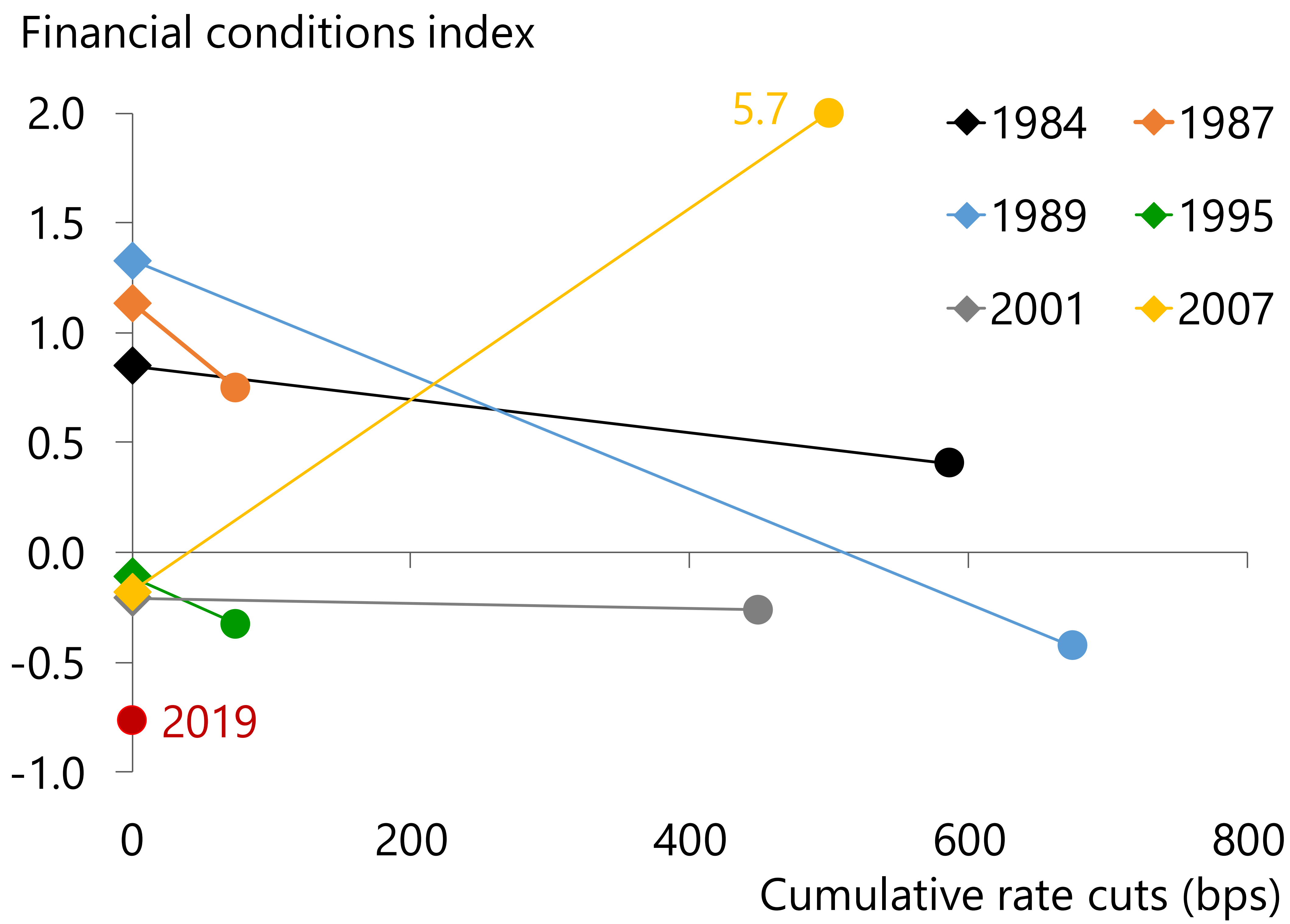
An “Unusual” US Monetary Policy Cycle

Financial conditions have eased during the most recent monetary tightening cycle in the US

US Financial Conditions Index (FCI)
During Tightening Cycles



US Financial Conditions Index (FCI)
During Easing Cycles

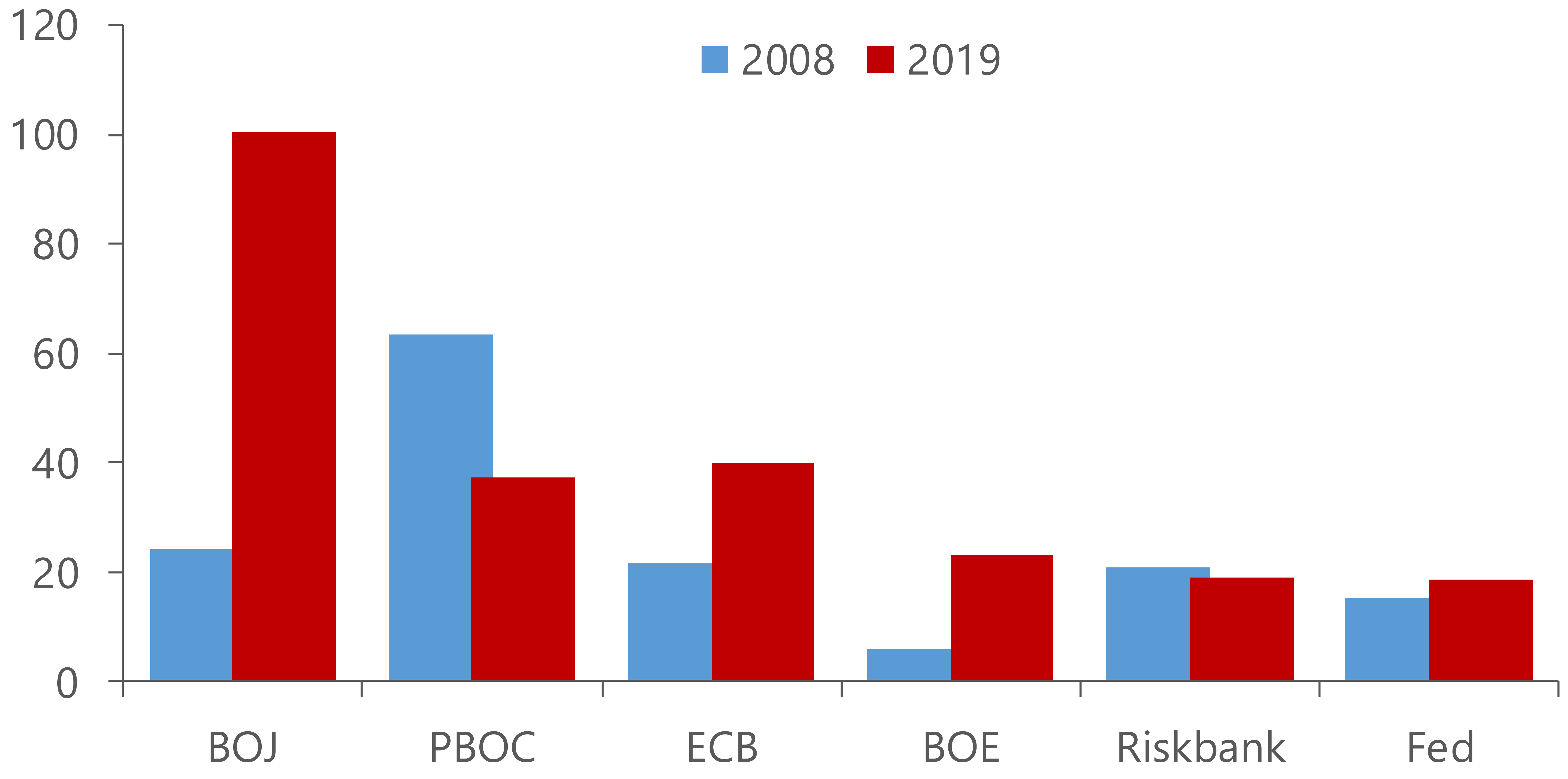


Note: Based on GFSR FCI from 1995. Pre-1995 FCI is spliced using the Chicago adjusted FCI.

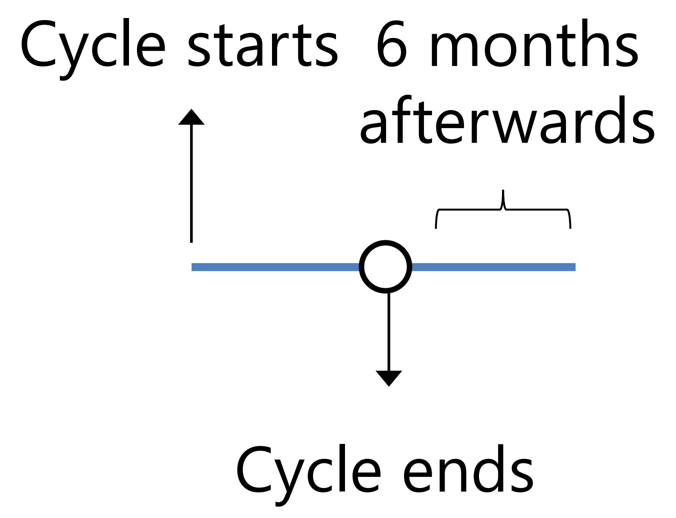
Unconventional Monetary Policies in the Next Recession?

How much policy space is available?

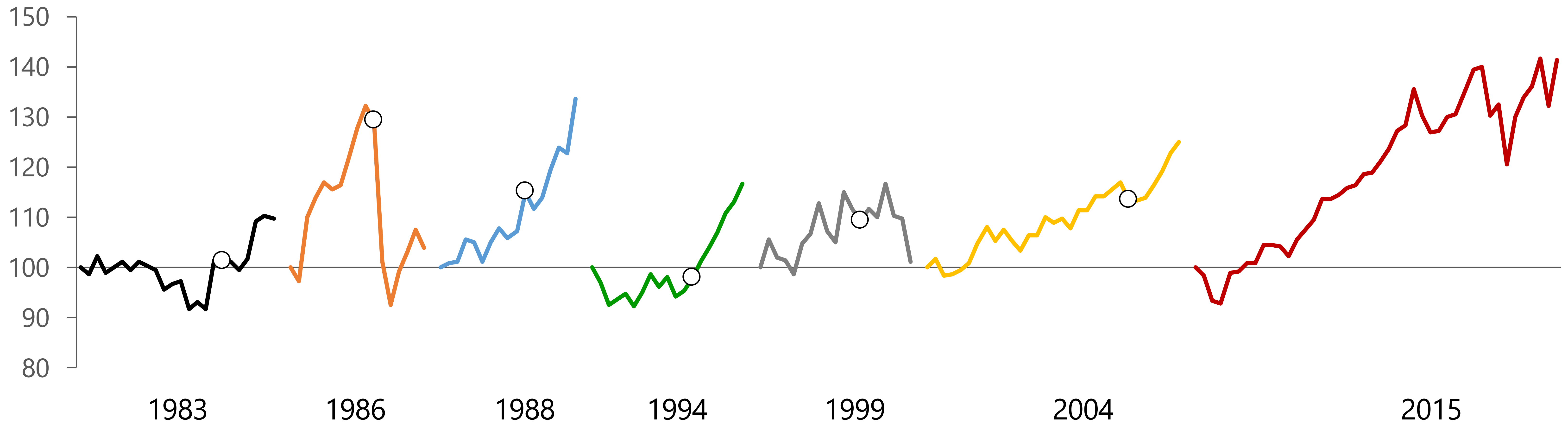
Central Bank Balance Sheet
(Percent of GDP)



Where Are We Headed…?



S&P Index Returns through Tightening Cycles



Treasury 10-year Yields through Tightening Cycles