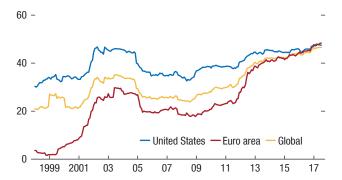
Figure 1.19. US and Emerging Market Corporate Bond Spread Decomposition and Leverage

A high proportion of ratings are clustered at the bottom end of the investment-grade rating range.

1. Quality Breakdown of the Investment-Grade Index (Percent of sample with BBB rating)



Risk premiums grind tighter for investment ...

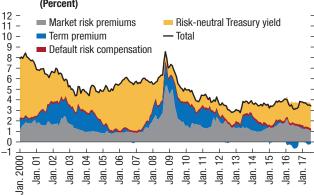
Risk-adjusted spreads have compressed to postcrisis lows.

2. Emerging Market and US Dollar Bond Spreads per Turn of Leverage



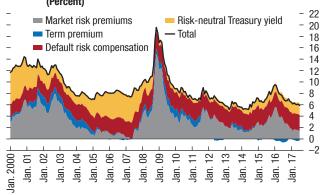
... and high-yield risk premiums fall to near new tights after an energy-related pop in 2016.

3. US Dollar Global Investment-Grade Bond (Excluding Emerging Markets) Yield Decomposition (Percent)



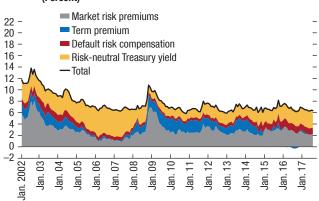
Emerging market bond risk premiums are also grinding lower ...

4. US Dollar Developed Market High-Yield Bond Yield Decomposition (Percent)



... driven by declines in term and market risk premiums.

5. US Dollar Emerging Market Bond Yield Decomposition (Percent)



 Markets Plus Term Premiums for Emerging Market and Developed Market Investment-Grade and High-Yield Bonds (Percent)



Sources: Bank of America Merrill Lynch; JPMorgan Chase & Co; Standard & Poor's; and IMF staff calculations.

Note: Market risk premium is the difference between the observed monthly bond spread and the estimated default risk compensation. Default risk compensation is estimated monthly by breaking down each index's holdings into Standard & Poor's (S&P) ratings buckets. Then, based on each bucket's rating and average duration, an average cumulative default probability is derived by referencing S&P's ratings transition tables. These results are weighted by the duration and ratings distribution of the corresponding index. Investment-grade spread, duration, and weightings are derived from the JPMorgan JULI ALL ex-EM index. High-yield data are derived from the JPMorgan Developed Market High Yield index. Emerging market data are derived from the JPMorgan EMBI Global index. Loss given default is always assumed to remain constant at 60 percent. Panel 5 includes both investment-grade and high-yield bonds.