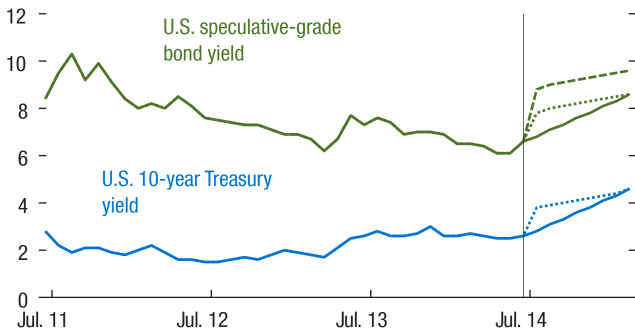
Figure 1.26. Monetary Policy Normalization

The impact of an accelerated monetary policy normalization on yields can be significant.

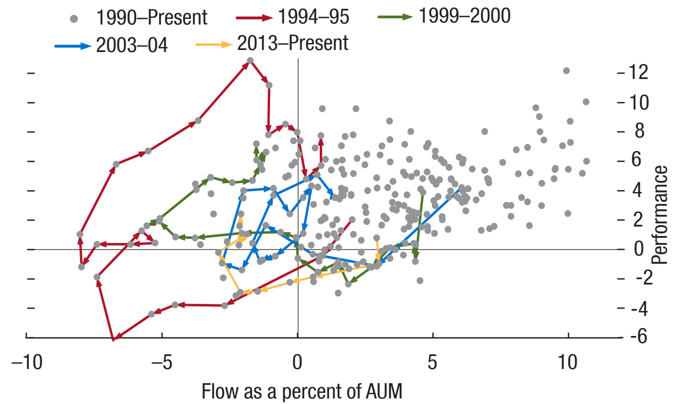
1. Impact on U.S. 10-Year Treasury and Speculative-Grade Bond Yields under Shock Scenarios (Percent)



Sources: Federal Reserve; Bloomberg L.P.; and IMF staff calculations.
Note: The dotted lines show a term premium shock. The dashed line shows an additional credit premium shock.

Monetary normalization could trigger outflows...

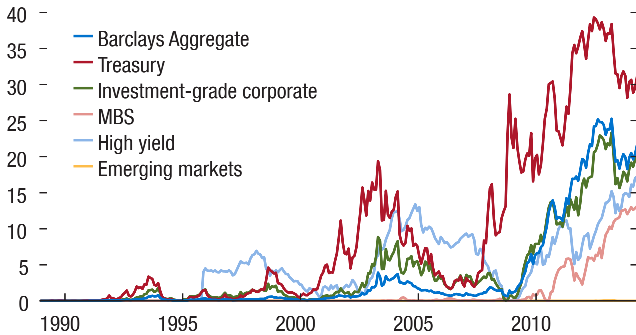
2. Barclays Aggregate Six-Month Flows versus Return



Source: Barclays.
Note: AUM = assets under management.

...and the risk of market losses is high.

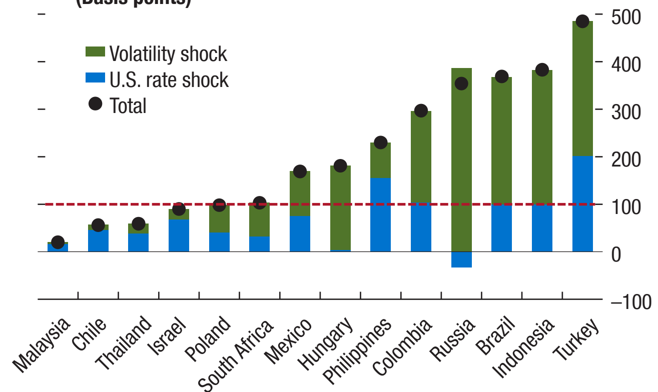
3. Probability of Quarterly Loss (Percent)



Sources: Barclays; and IMF staff calculations.
Note: MBS = mortgage-backed securities.

Sensitivity of emerging market bond yields to volatility is generally higher than rates.

4. Estimated Impact on Increase in Volatility and U.S. Rates on Emerging Market Local-Currency Government Bond Yields (Basis points)



Source: IMF staff calculations.
Note: The figure shows the increase in yield of several emerging market 10-year local currency government bonds (10-year cross-currency swap for Turkey and Russia, 10-year TIIE [Tasa de Interés Interbancaria de Equilibrio] 130x1 swap for Mexico, and five-year DI [depositos interfinanceiros] futures for Brazil) with respect to an increase in the yield of the 10-year U.S. Treasury note by 100 basis points, an increase of the MOVE (Merrill Option Volatility Estimate) index to 125, corresponding to its June 2013 level, and a switch of each country's yield volatility state to high (see Annex 1.4 for more information).