Figure 1.7. Valuations of Global Equities

Global equities have extended their rally in recent months, on balance, since October \dots

1. MSCI Equity Indices (End-2011 = 100) 300 **United States** EM Asia Japan Euro area FM Latam **FM FMFA** 250 United Kingdom 200 -150 100 50 2009 12 13 14 15 16 17 18

In the United States, valuations are high relative to their historical averages and pre-GFC peak, and to other countries.

3. Valuation Metrics

1.0

0.5

... supporting a rebound in equity issuance, especially in emerging markets.

2. Gross Equity Issuance (Billions of US dollars, quarterly) United States Other advanced EMs excluding China China 300 - 200 2005 07 09 11 13 15 17

However, US equity valuations appear low relative to US Treasuries.

(Dotted arrows: 2008-12; solid arrows: 2012-18; squares: long-term average) 26 Emerging markets Japan 24 -**United States** China 22 Europe Price-to-earnings ratio 20 -18-16 14 -12-10-

Equity valuations have been supported by historically low interest rates and robust earnings expectations.

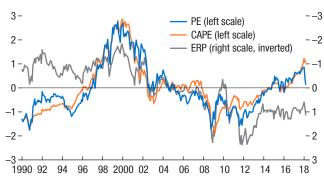
2.0

Price-to-book ratio

2.5

3.0

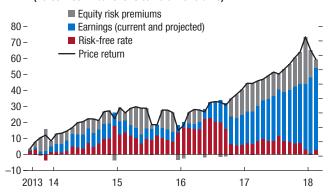
4. Valuation Metrics (Z-scores)



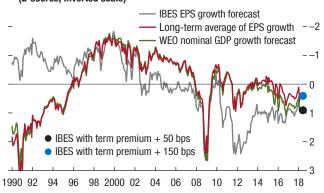
The relative equity valuations are closer to their historical averages if more sustainable earnings are assumed.

5. Decomposition of Equity Market Performance (Percent contributions to cumulative returns)

1.5



6. Equity Risk Premium under Different Assumptions (Z-scores; inverted scale)



Sources: Bloomberg Finance L.P.; Citigroup Index LLC; ICE Bank of America Merrill Lynch; JPMorgan Chase & Co; IMF, World Economic Outlook (WEO) database; Morgan Stanley Capital International (MSCI); Standard & Poor's; Thomson Reuters IBES; and IMF staff calculations.

Note: bps = basis points; CAPE = cyclically adjusted price-to-earnings ratio; EM = emerging market; EMEA = Europe, Middle East, Africa; EPS = earnings per share; ERP = equity risk premium; GFC = global financial crisis; Latam = Latin America; PE = price-to-earnings ratio.

3.5