Figure 1.9. Asset Valuations
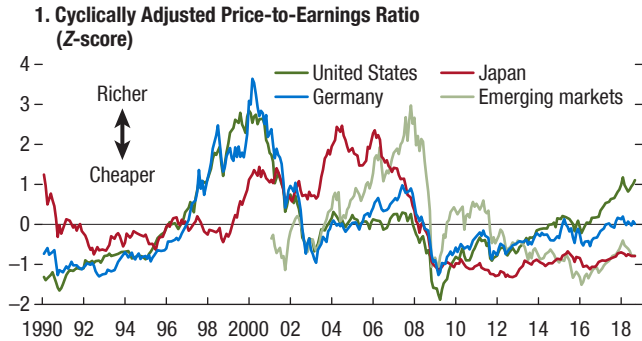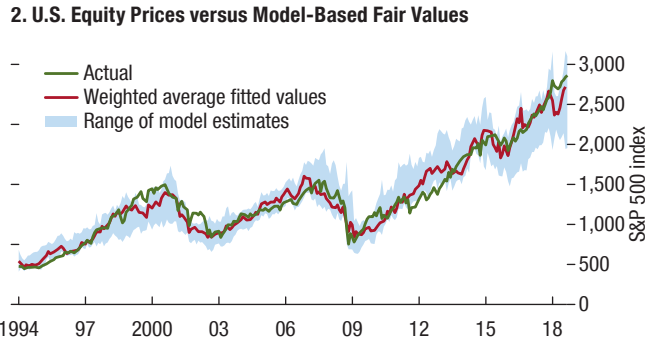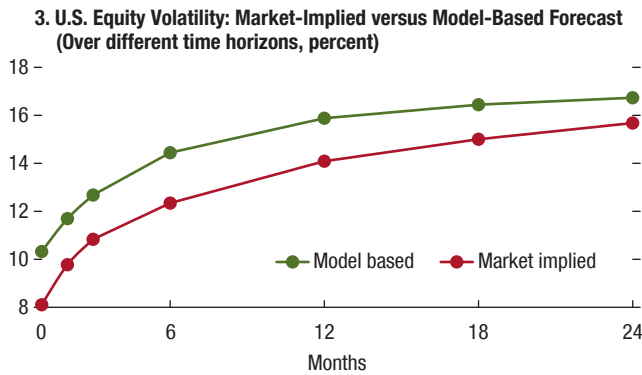
Equity valuations in the United States have continued to rise well above precrisis highs ...

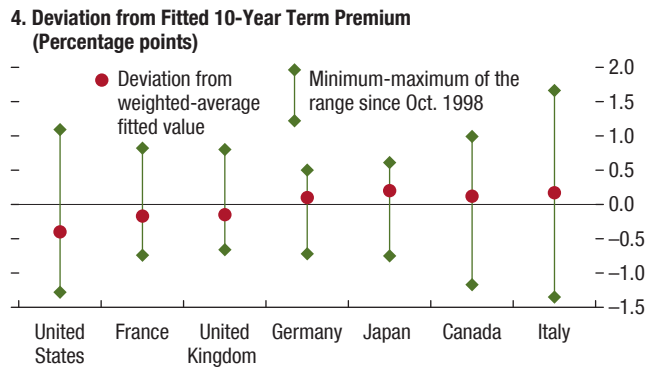... and appear to be stretched relative to the underlying fundamentals.

1. Cyclically Adjusted Price-to-Earnings Ratio
(Z-score)

Richer
Cheaper

United States — Japan
Germany — Emerging markets

2. U.S. Equity Prices versus Model-Based Fair Values

Actual
Weighted average fitted values
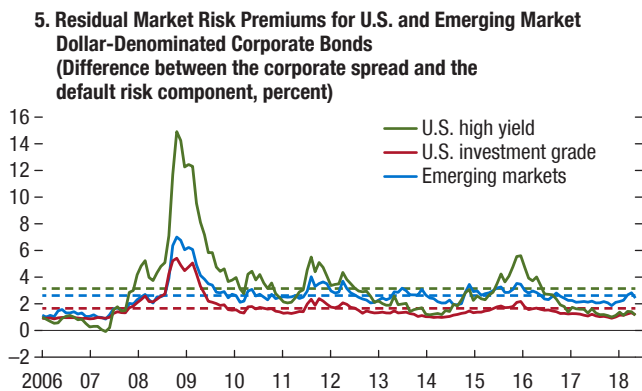Range of model estimates

S&P 500 index

Market implied volatility is lower than that from model-based forecasts.

Term premiums are historically low but are mostly fairly priced based on fundamentals.

3. U.S. Equity Volatility: Market-Implied versus Model-Based Forecast
(Over different time horizons, percent)

Model based — Market implied

Months

4. Deviation from Fitted 10-Year Term Premium
(Percentage points)

Deviation from weighted-average fitted value

Minimum-maximum of the range since Oct. 1998

United States   France   United Kingdom   Germany   Japan   Canada   Italy

Corporate spreads remain very low, given creditworthiness of borrowers.

Housing market valuations have surged in many advanced economies.

5. Residual Market Risk Premiums for U.S. and Emerging Market Dollar-Denominated Corporate Bonds
(Difference between the corporate spread and the default risk component, percent)

U.S. high yield
U.S. investment grade
Emerging markets

6. Housing Market Valuations
(Z-scores over 1990–2017)

Global — United States
Euro area — Other AE excluding Japan
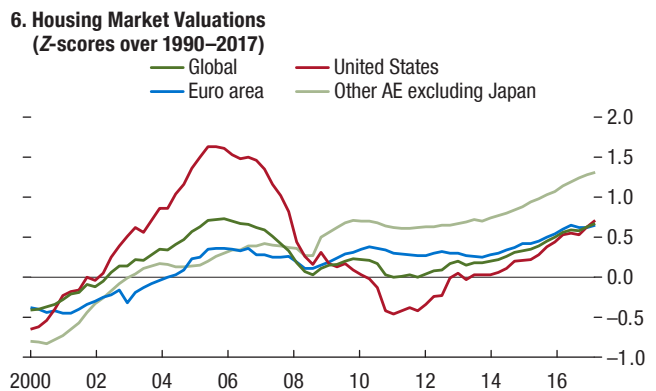
Sources: Bank of International Settlements; Bloomberg Finance L.P.; Consensus Economics; Datastream; Thomson Reuters I/B/E/S; ICE Bank of America Merrill Lynch; JP Morgan Chase & Co.; IMF, International Financial Statistics database; Standard & Poor's; and IMF staff calculations.
Note: In panel 2, the shaded bank refers to the range of estimates for a wide array of models. In panel 3, the model-based forecast is based on Glosten, Jagannathan, and Runkle (1993). Panel 4 shows spreads between 10-year term premium estimates based on the Adrian, Crump, and Moench (2013) model, and weighted-average fitted term premium based on fundamental variables. For details of the fitted model, see Box 1.2 of the April 2018 *Global Financial Stability Report* (GFSR). Panel 5 shows the estimated risk premium (see October 2017 GFSR) defined as the difference between the observed monthly bond spread and the estimated default risk compensation based on default probability by rating. Dashed lines are period averages. Panel 6 shows the average z-scores based on pooled data for house price-to-income ratio, house price-to-rent ratio, and inverse of mortgage rates. AE = advanced economy.