



International Monetary Fund

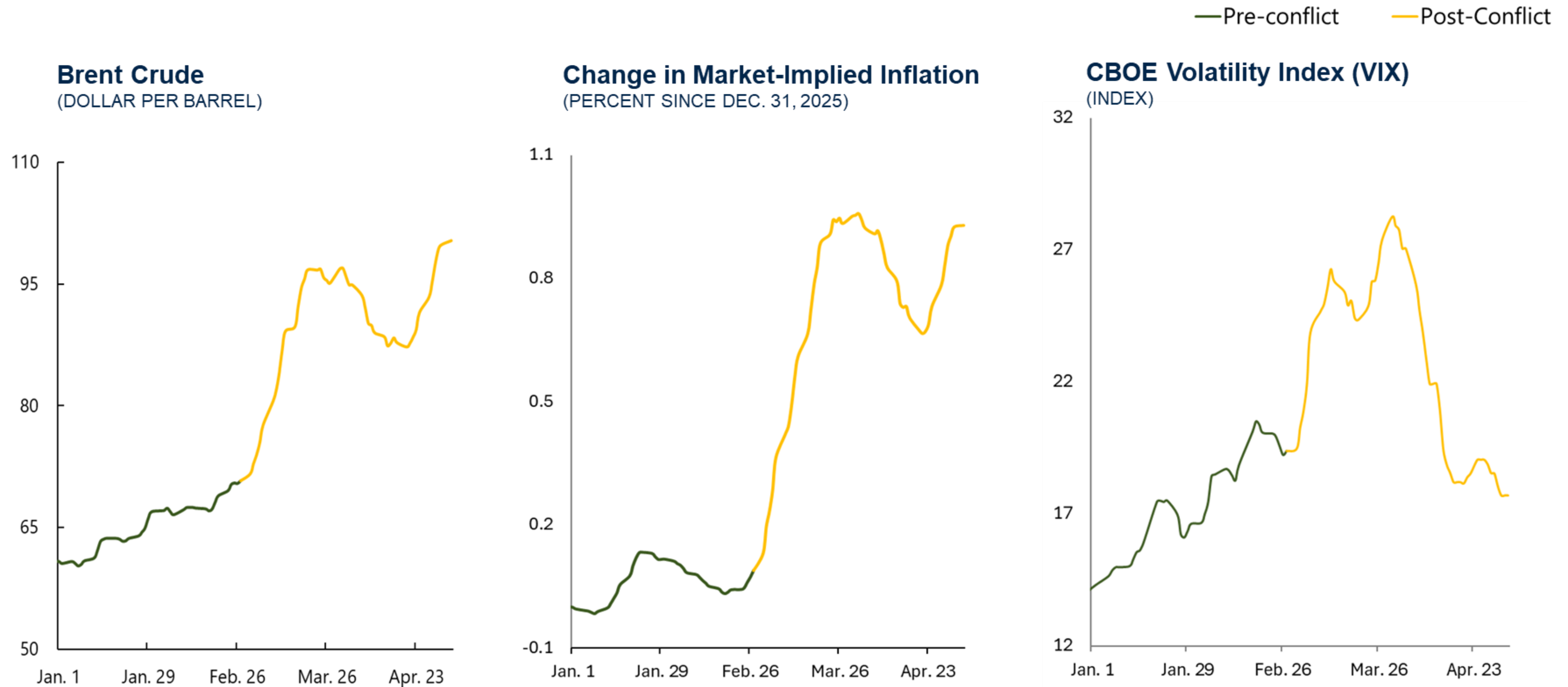
May 2026

Global Financial Stability Report

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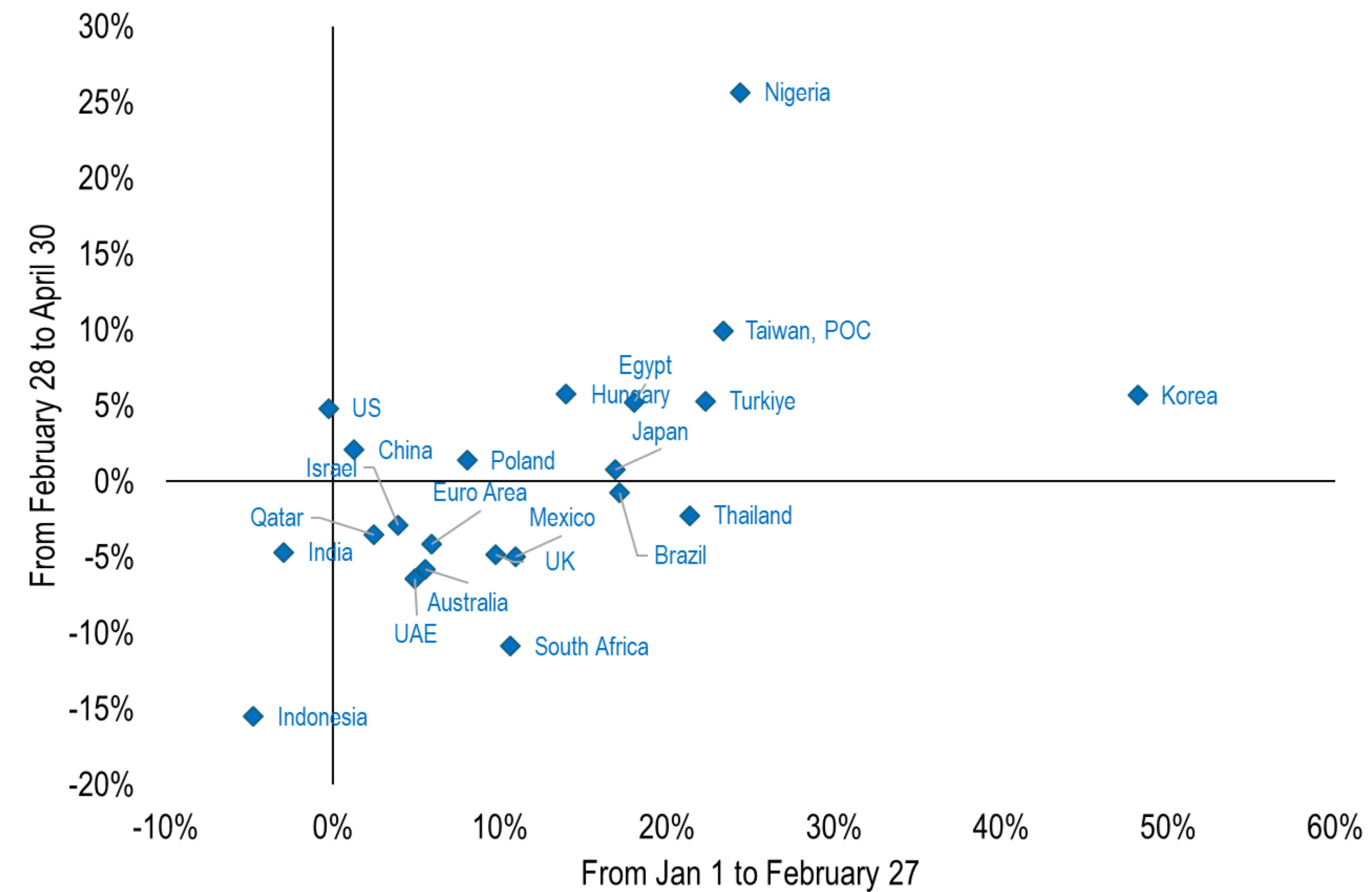
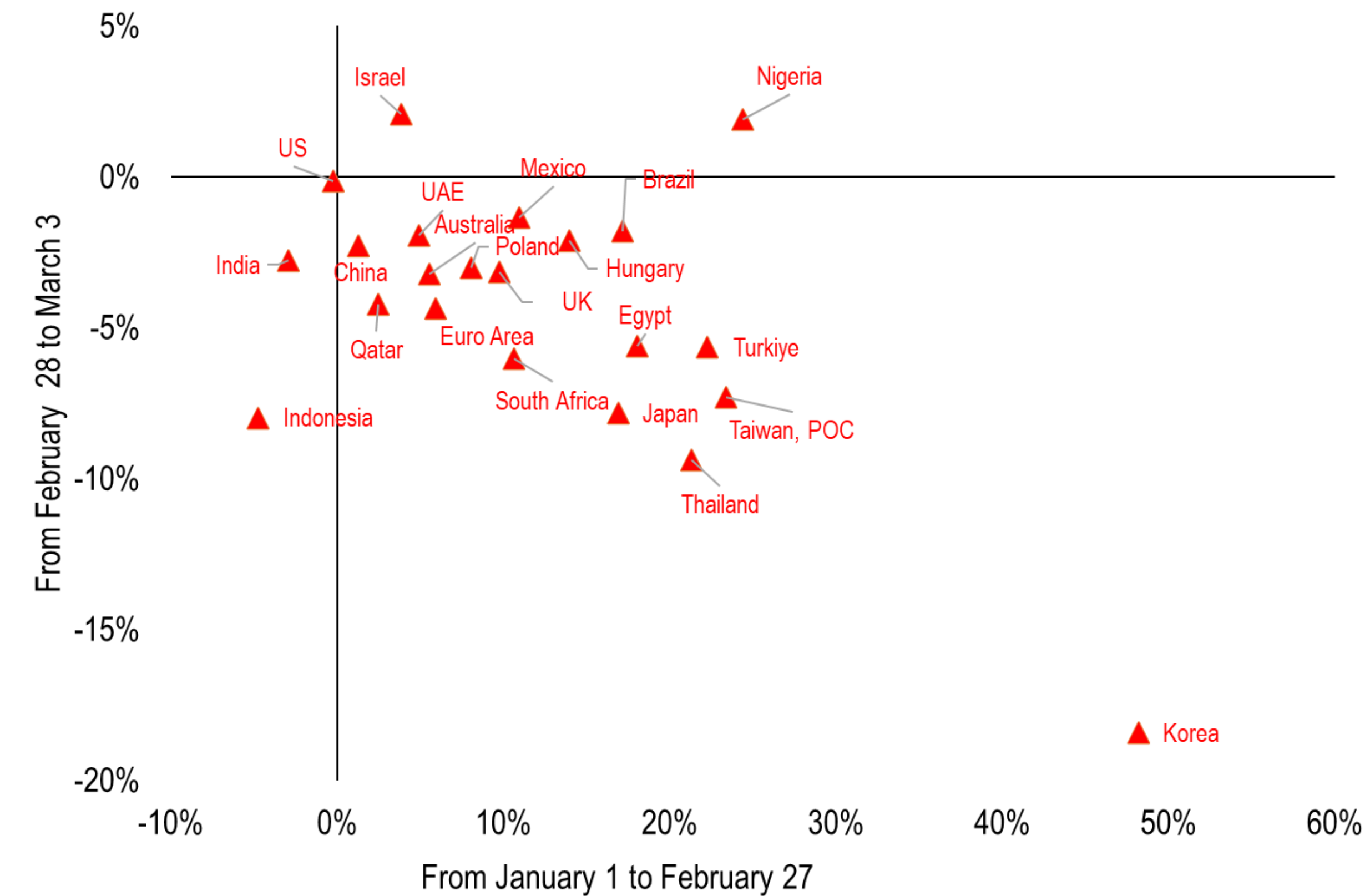
The war in the Middle East elicited strong initial market reactions



Note: Brent crude prices are June 2026 contract. Market-implied inflation expectations are the average two-year breakeven inflation rates for Germany, Japan, the United Kingdom, and the United States.

Markets have since become more sanguine

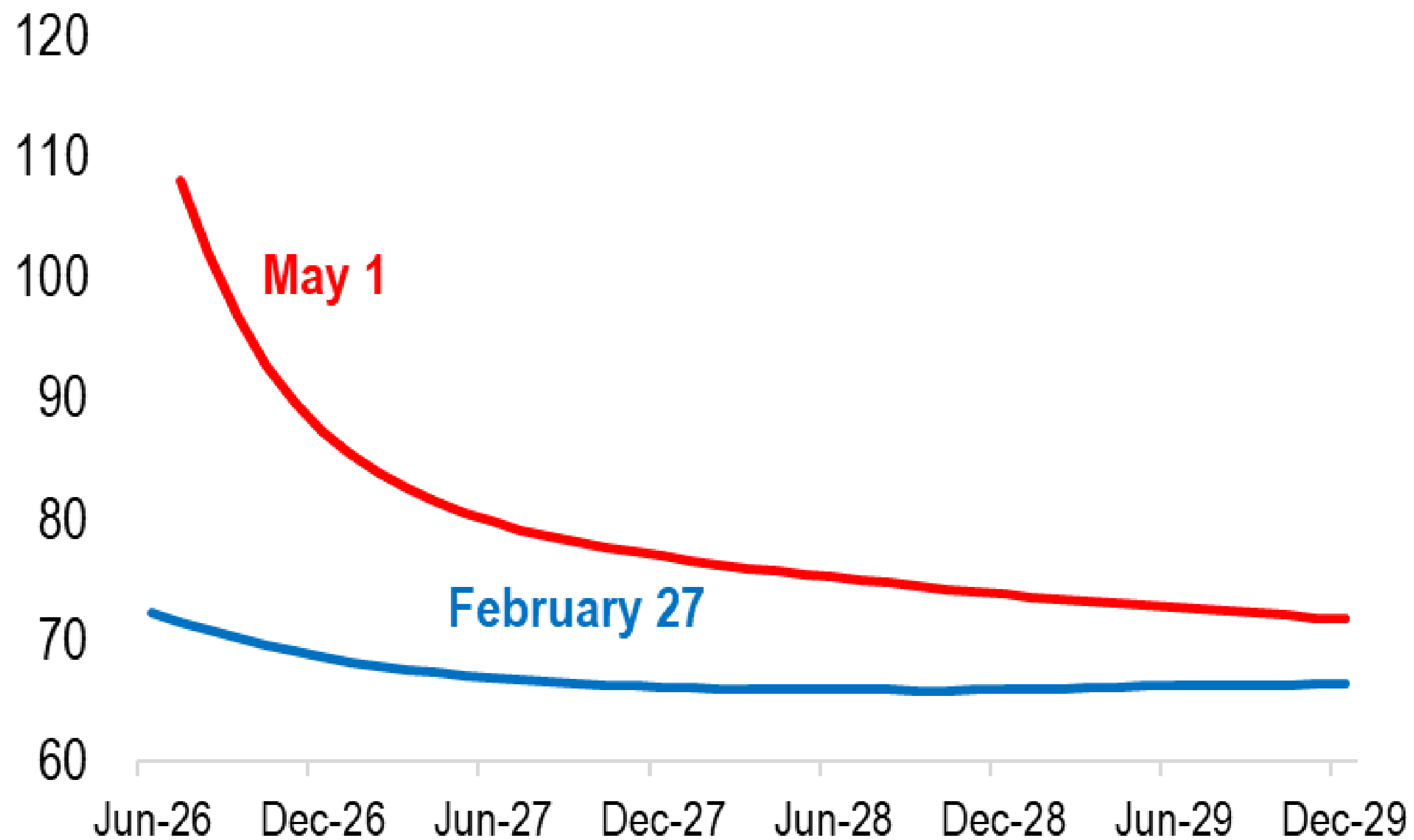
Equity price changes (Percent)



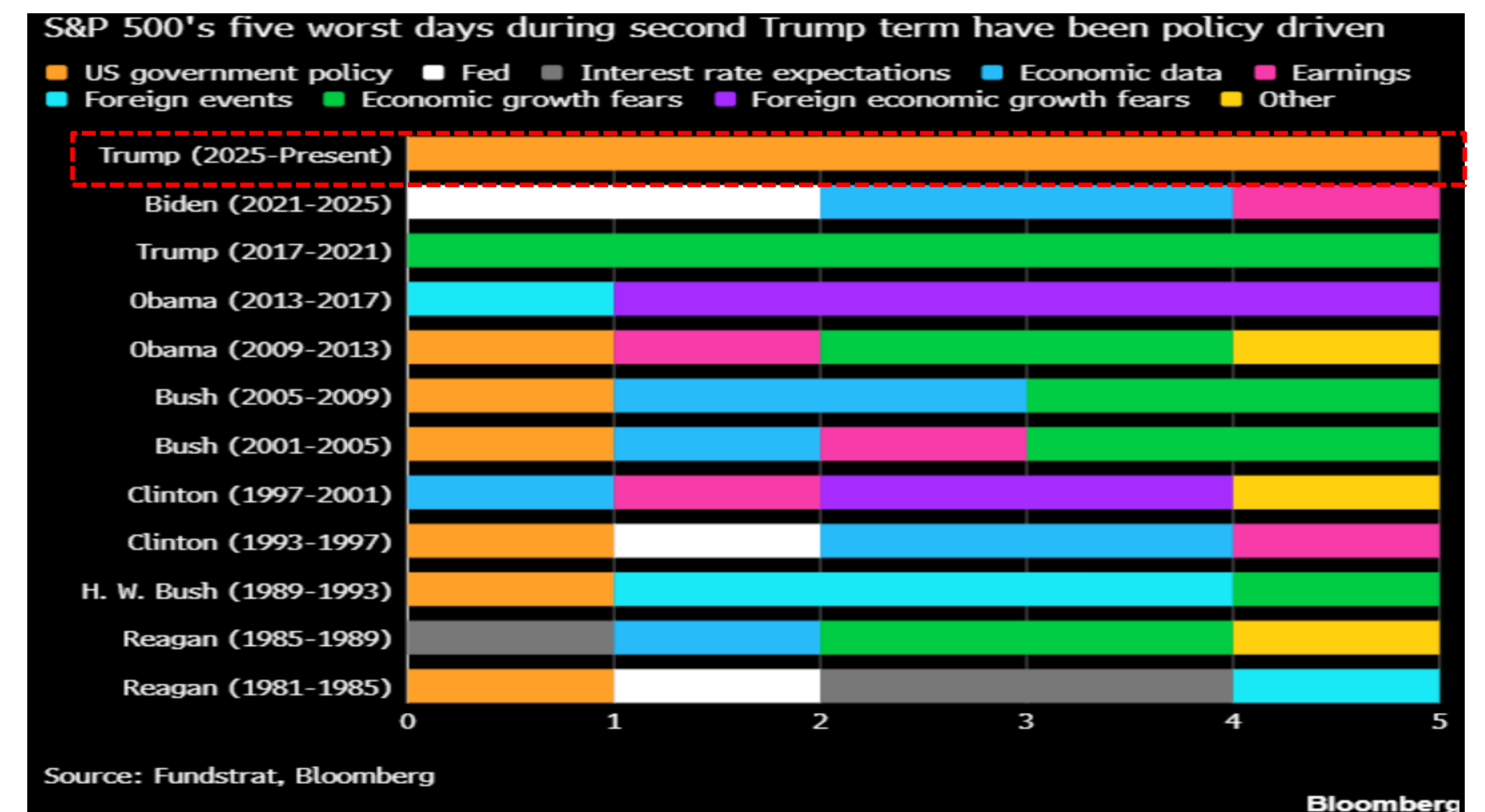
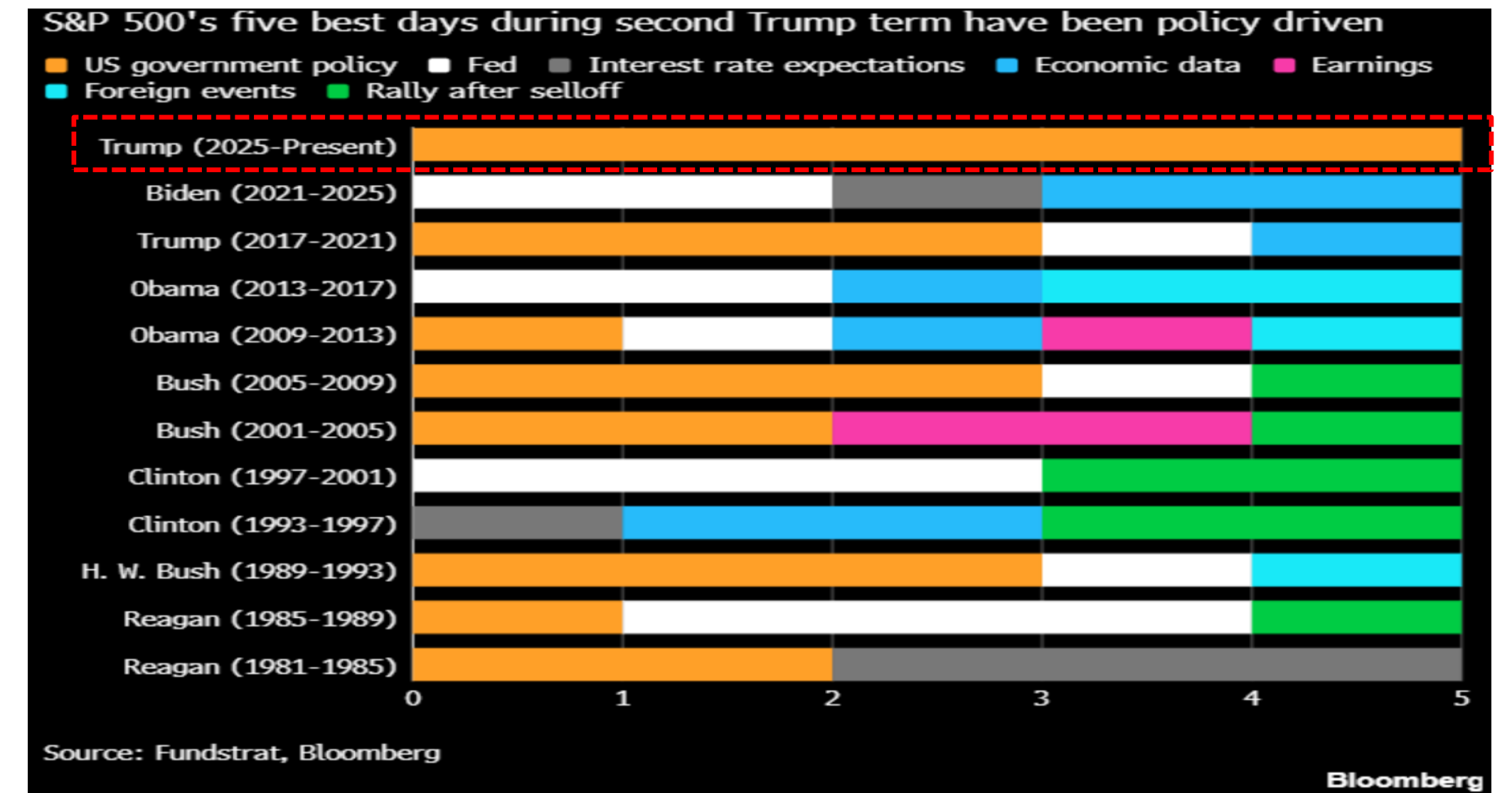
What's driving the market's optimism?

Futures market indicating a modest rise in oil prices over the medium term

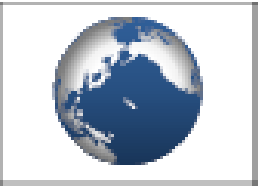
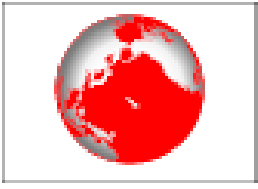
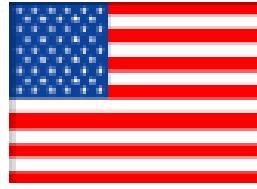
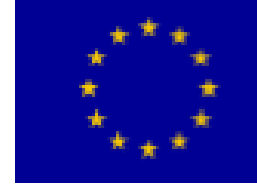
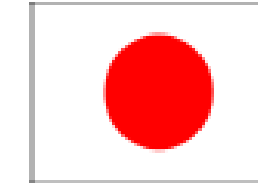
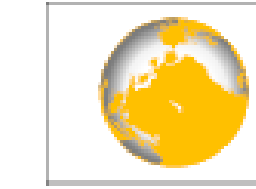
Brent oil futures prices (USD per barrel)



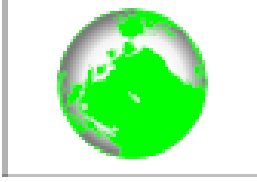
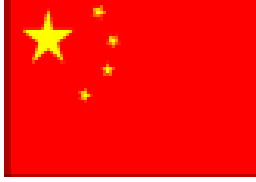
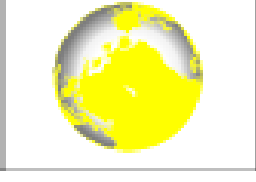
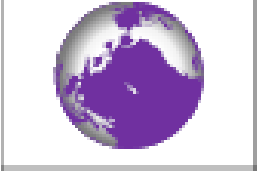
Market dominated by the ebb and flow of the U.S. president



Growth forecasting is a difficult task given the uncertainty

								
	World	Advanced Economies	United States	Euro Area	Japan	United Kingdom	Canada	Other Advanced Asia
2025	3.4	1.9	2.1	1.4	1.2	1.3	1.7	3.5
Revision from Jan. 2026	0.1	0.2	0.0	0.0	0.1	-0.1	0.1	1.5
2026	3.1	1.8	2.3	1.1	0.7	0.8	1.5	2.9
Revision from Jan. 2026	-0.2	0.0	-0.1	-0.2	0.0	-0.5	-0.1	0.9
2027	3.2	1.7	2.1	1.2	0.6	1.3	1.9	2.3
Revision from Jan. 2026	0.0	0.0	0.1	-0.2	0.0	-0.2	0.0	0.0

Growth forecasting is a difficult task given the uncertainty

								
	World	Emerging Market and Developing Economies	China	India	Brazil	Russia	Commodity Exporting Economies	Low Income Developing Countries
2025	3.4	4.4	5.0	7.6	2.3	1.0	3.2	4.8
Revision from Jan. 2026	0.1	0.0	0.0	0.3	-0.2	0.4	0.1	0.2
2026	3.1	3.9	4.4	6.5	1.9	1.1	2.5	4.8
Revision from Jan. 2026	-0.2	-0.3	-0.1	0.1	0.3	0.3	-0.6	-0.3
2027	3.2	4.2	4.0	6.5	2.0	1.1	3.4	4.9
Revision from Jan. 2026	0.0	0.1	0.0	0.1	-0.3	0.1	0.2	-0.2

Salient financial stability risks

The real world tells a **very different** story from markets:

- “Dated” prices of commodities significantly higher.
- Refined product shortages intensifying (e.g., jet fuel).
- Shipping and logistics starting to be affected.
- Food and manufacturing depend on fertilizers and other products affected by the Strait’s closure.
- Unlike tariffs, the war cannot be resolved by unilateral actions.

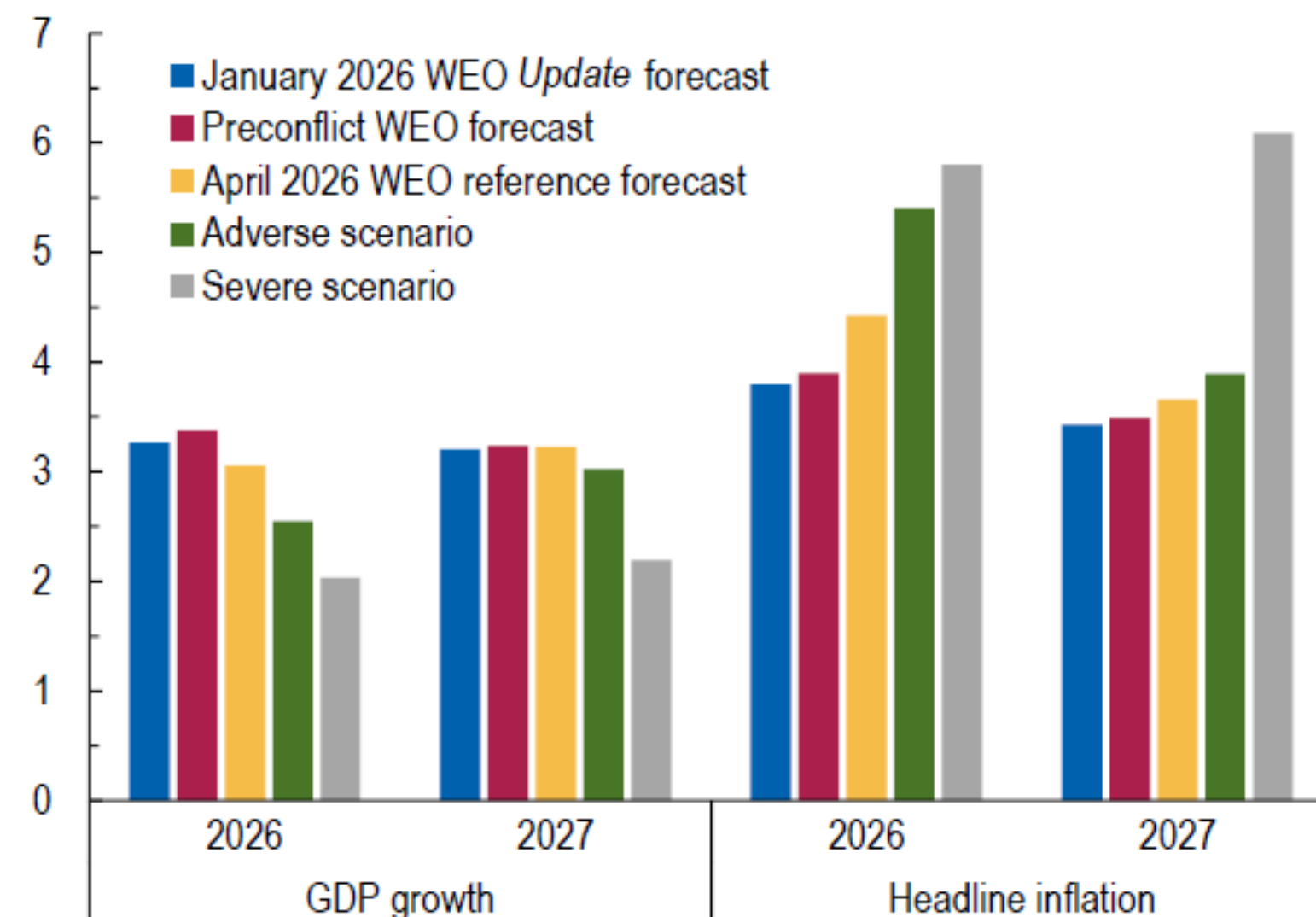
Further supply shocks, more persistent inflationary pressures, higher inflation expectations, higher interest rates and lower growth.

Salient financial stability risks that could be triggered:

1. **Bond market fragilities.**
2. **Emerging markets under pressure.**
3. **High and concentrated asset valuations.**
4. **Amplification channels through financial vulnerabilities.**

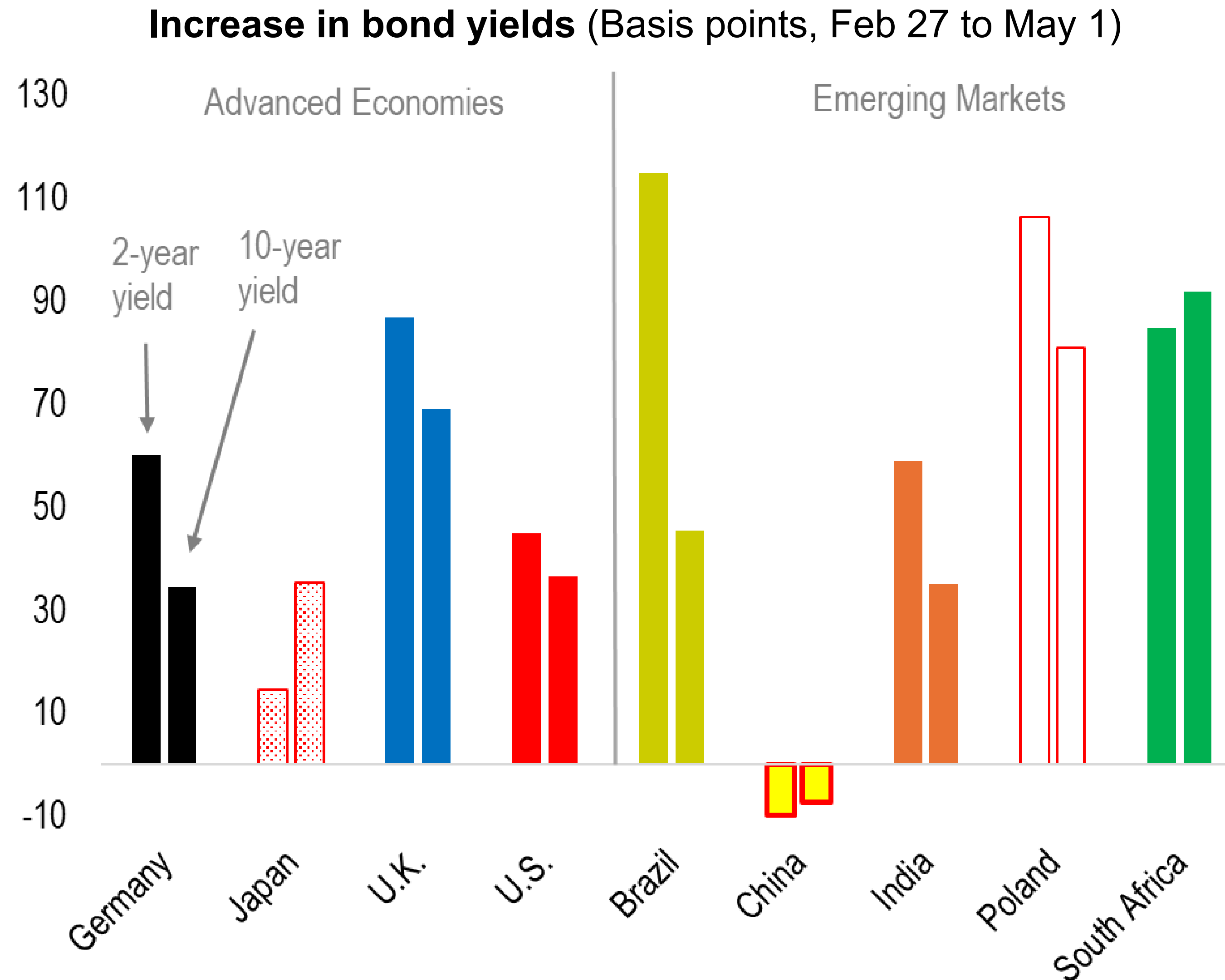
Financial stability risks are elevated.

Global Growth and Inflation Forecasts
(Percent)



1. Bond market fragilities

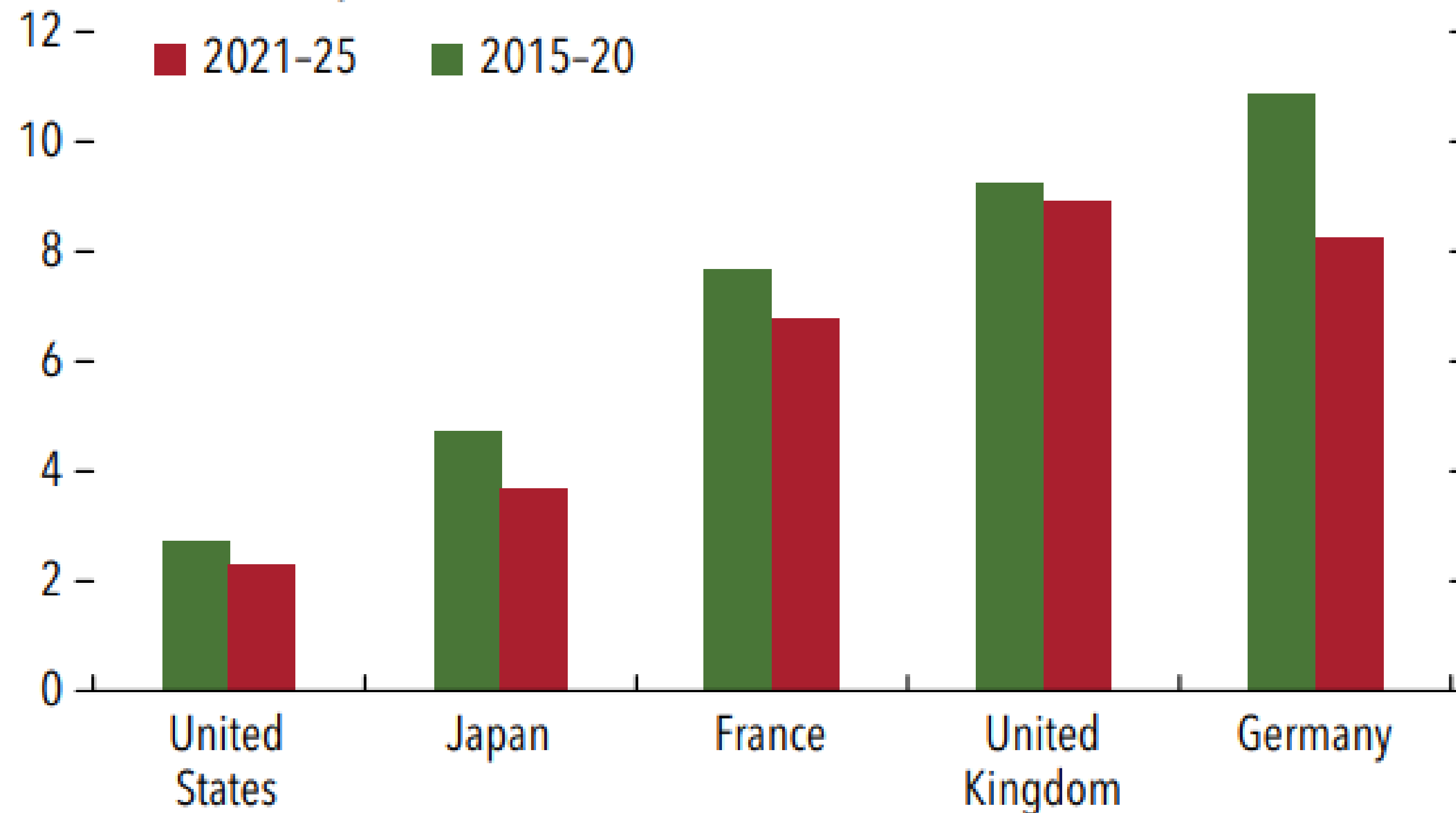
Inflation pushed up monetary policy expectations and bond yields...only just a bit



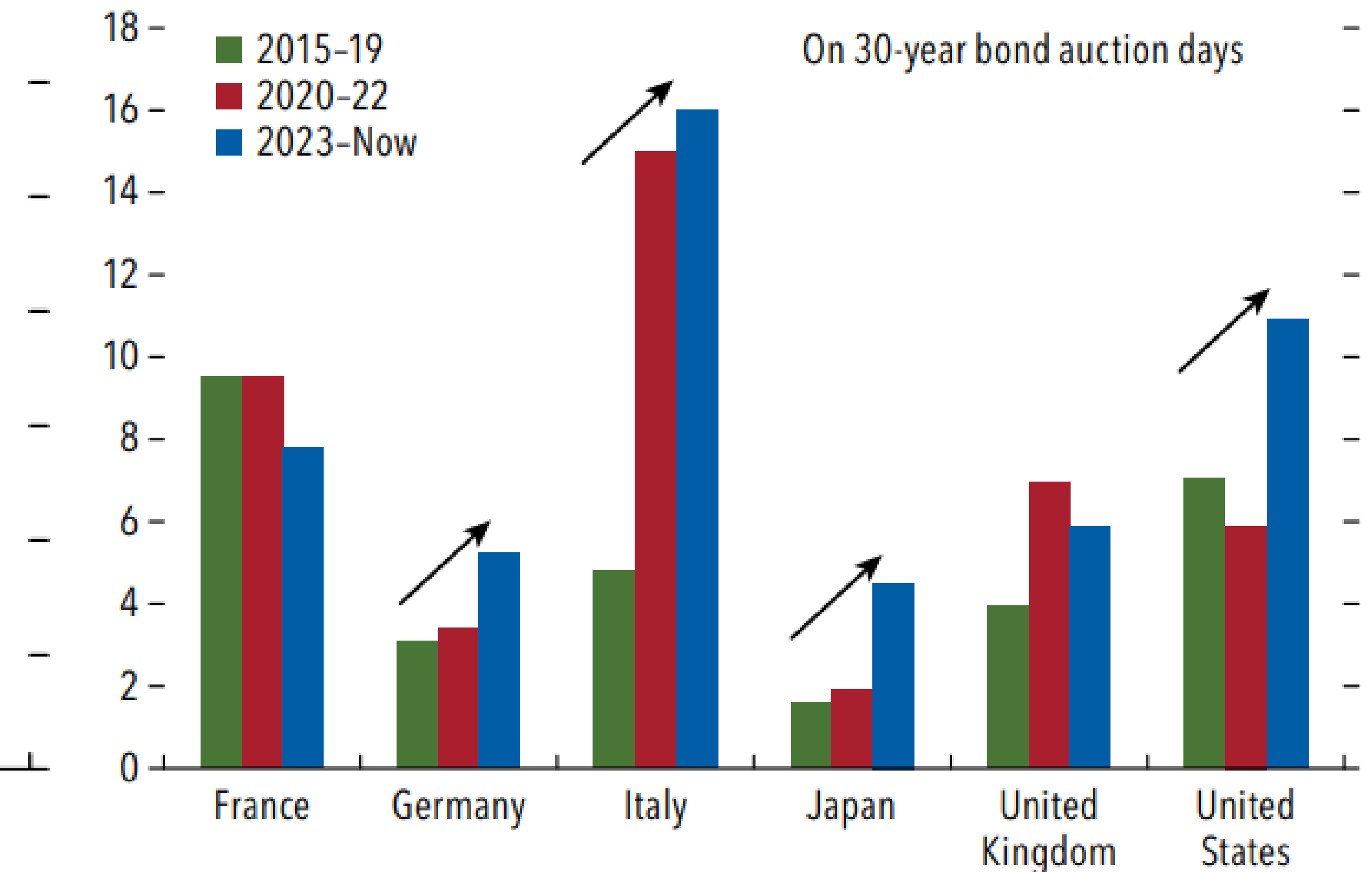
1. Bond market fragilities

Further inflation shocks could be exacerbated by higher rollover risks and more sensitive investors amid high debt

Average Maturity of Newly Issued Debt (Number of years)



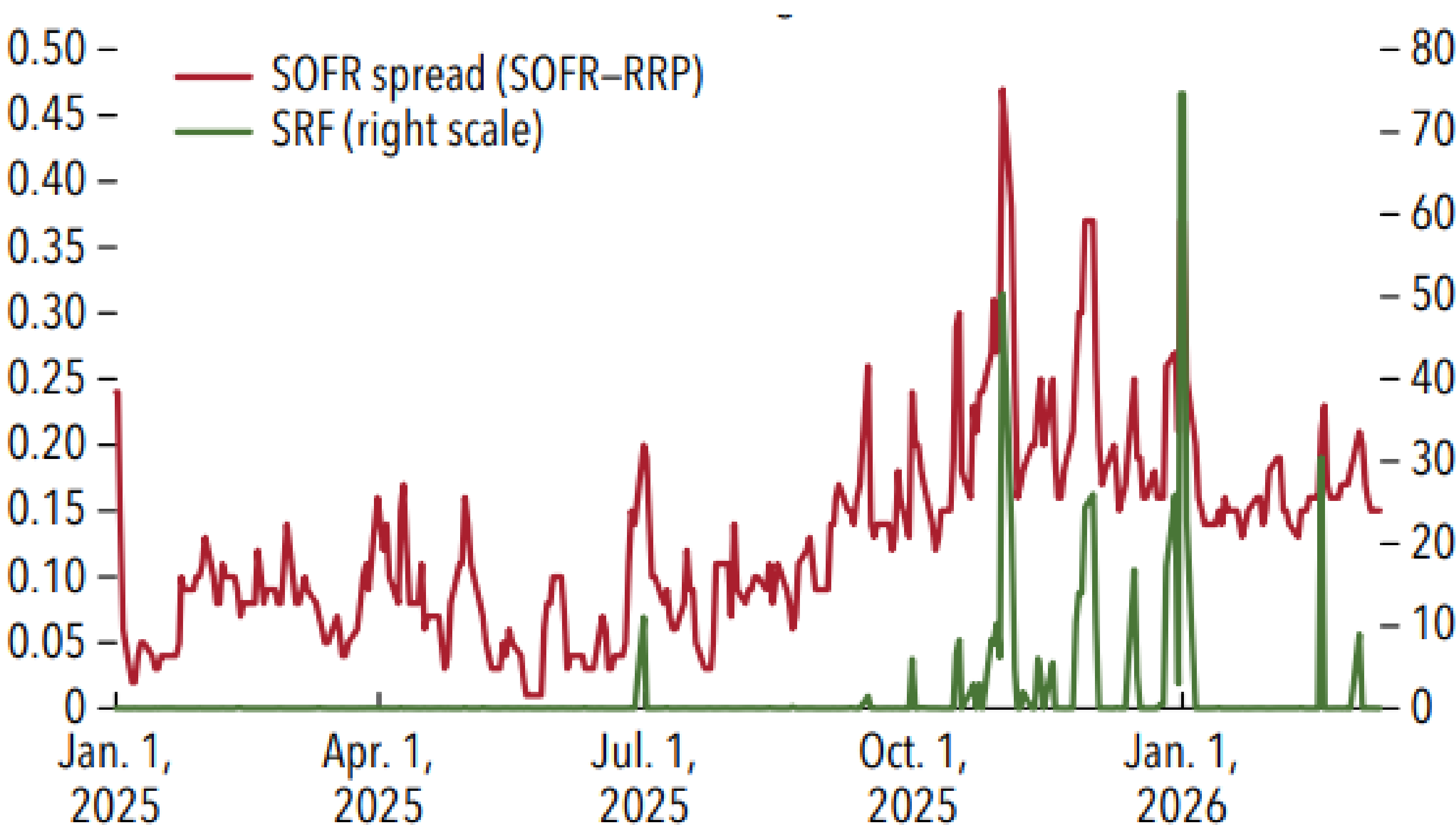
30-year yield reaction on auction days (Basis points, 90th percentile within indicated periods)



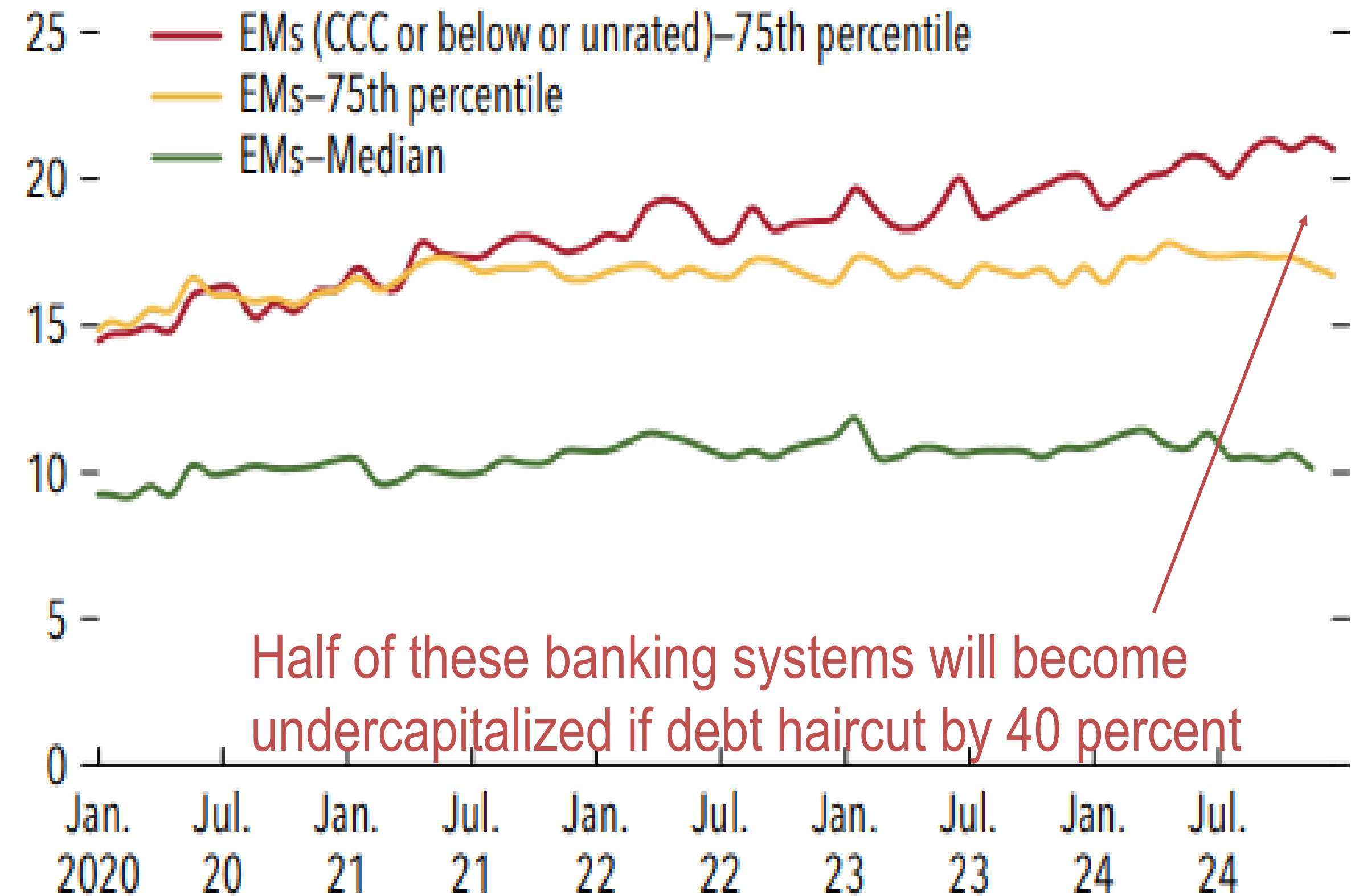
1. Bond market fragilities

Rapid repricing in bonds risks funding market stress, and could expose sovereign-bank nexus

Repo Spreads and Usage of the Standing Repo Facility
(Percent, left; USD billions, right)



Banking Systems' Exposure to Central Government Debt
(Percent)

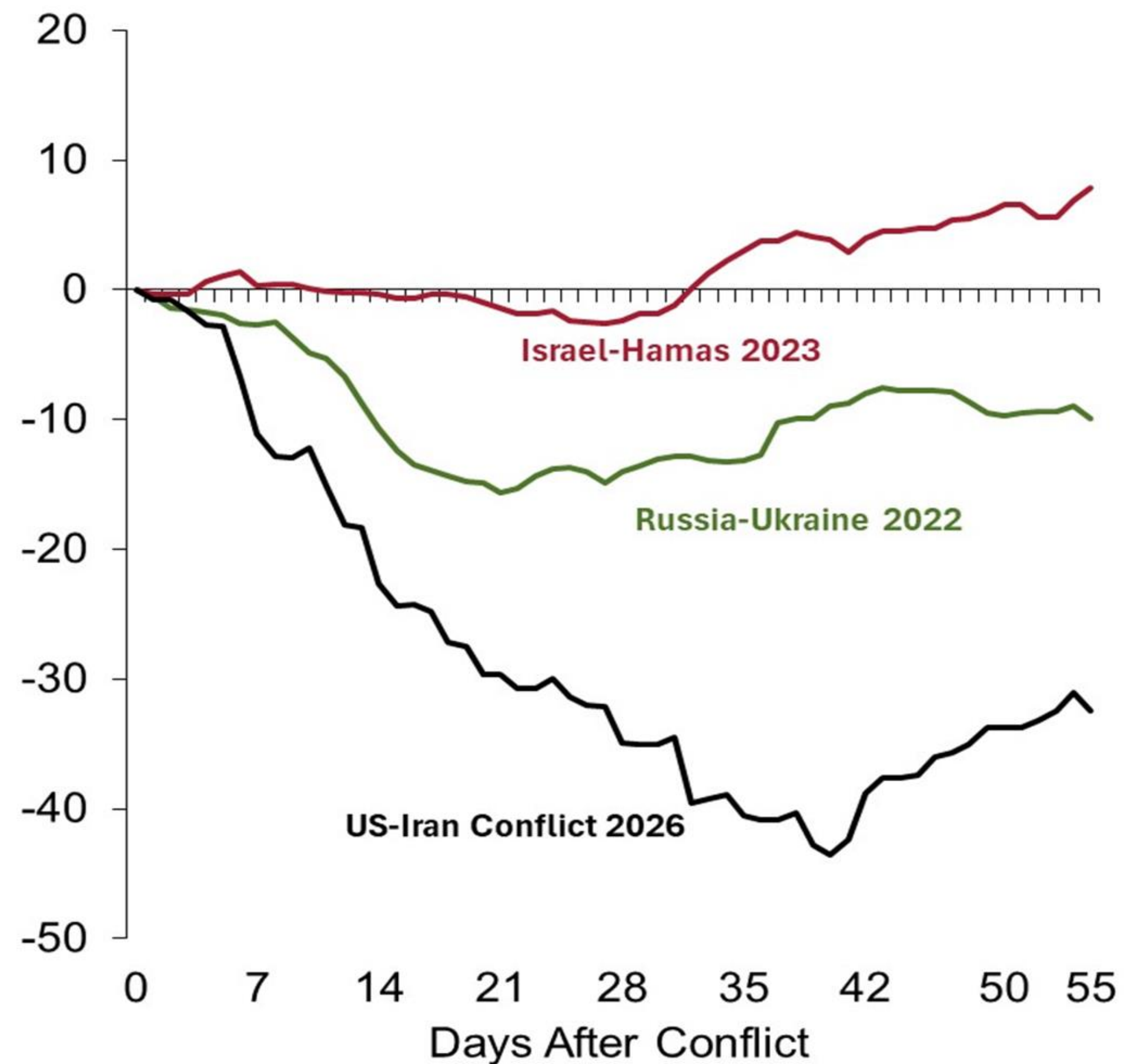


Note: Exposures refer to domestic currency loans and bonds, across 116 emerging markets

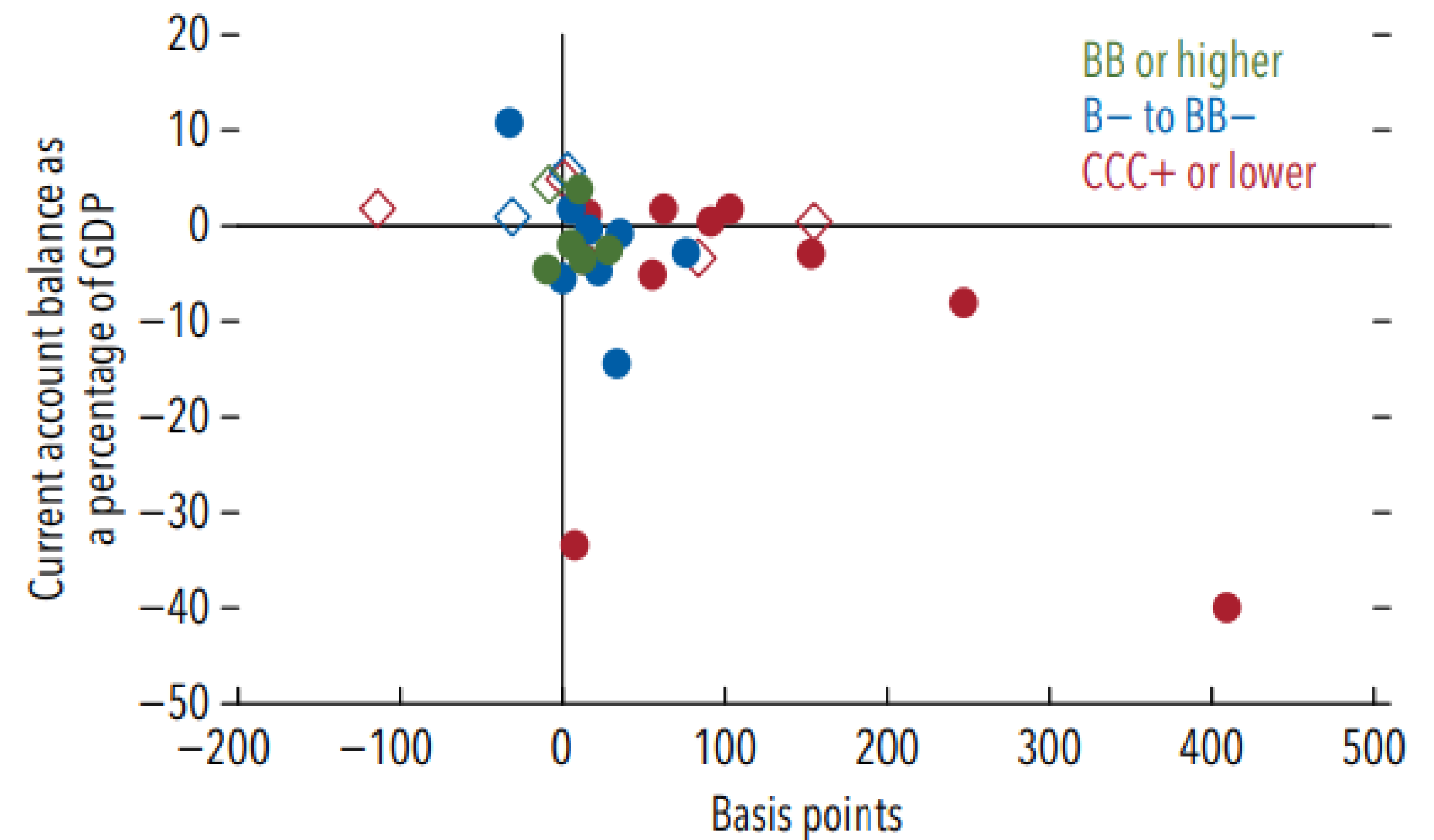
2. Emerging markets under pressure

Capital outflows have been substantial since the outbreak of war, assets of weaker EMs sold off more

Nonresident Portfolio Flows (USD billions, cumulative)



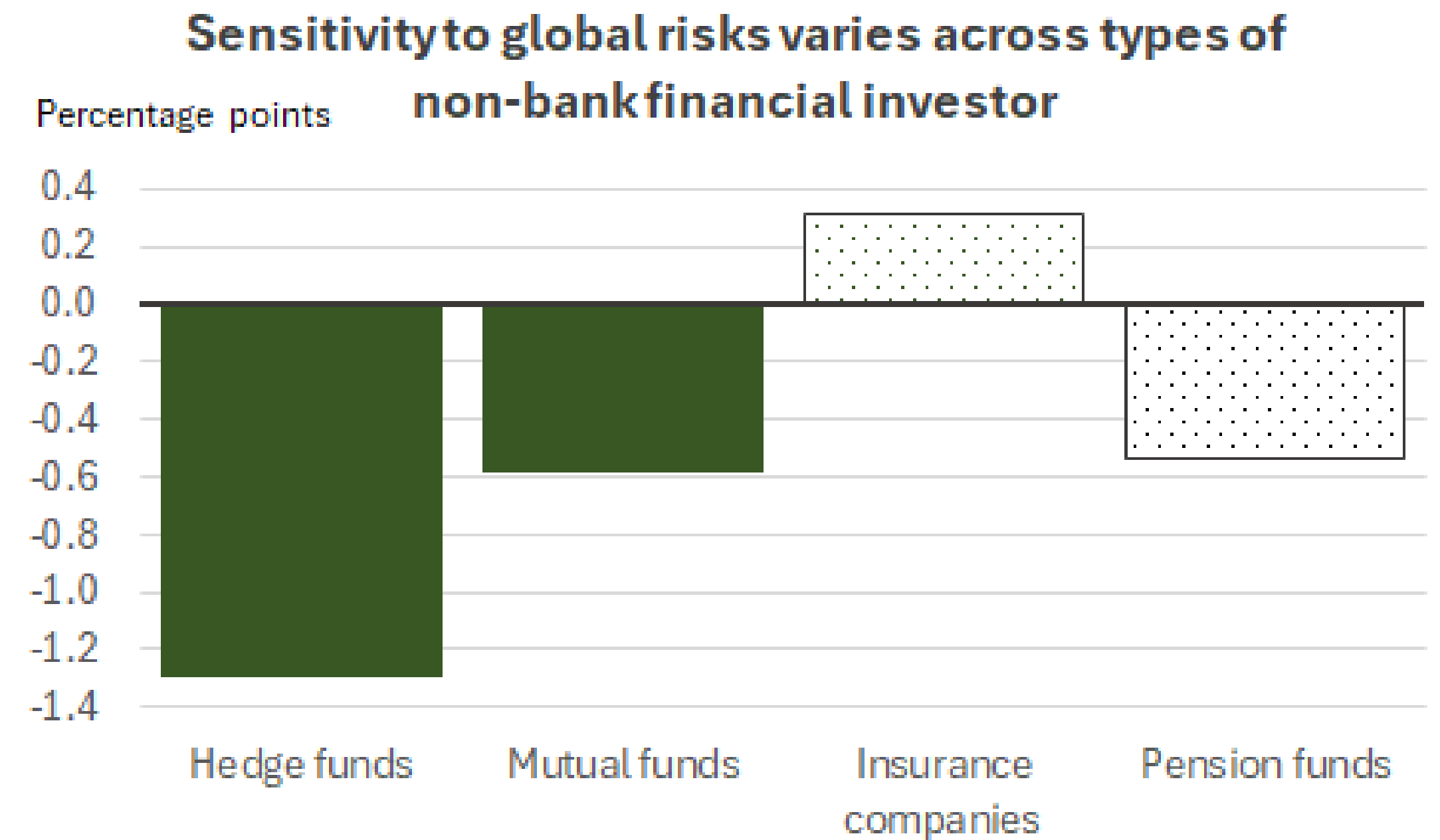
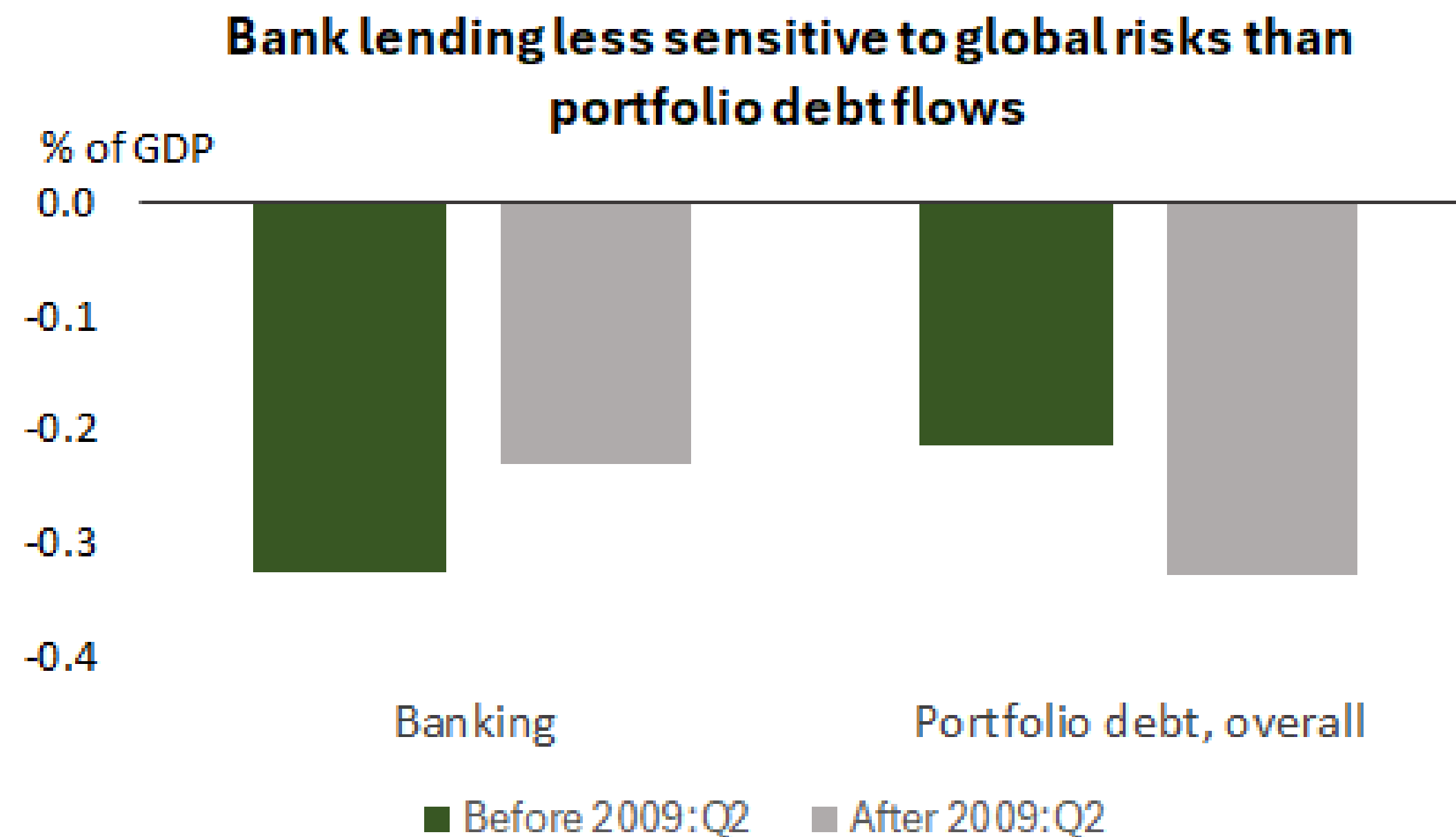
Hard Currency Sovereign Bond Spread changes since February 27 (Basis points)



Note: In the right panel, a circle represents energy importers while a diamond indicates energy exporters.

2. Emerging markets under pressure

EMs' market response to global risks has evolved

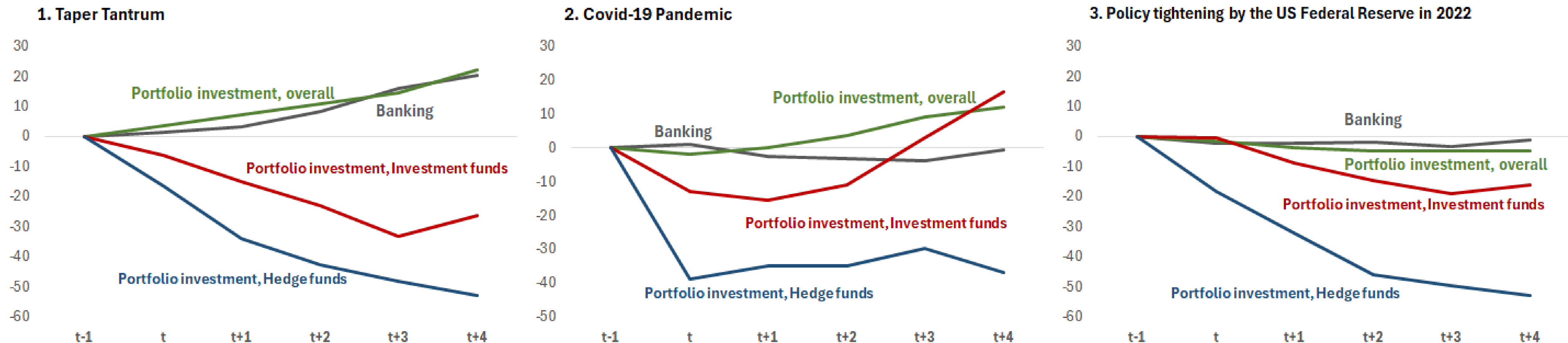


Sources: Bank for International Settlements; Emerging Portfolio Fund Research; IMF, Balance of Payments Statistics; and IMF staff calculations.

Note: The RHS panel shows estimates of the valuation-adjusted change in the growth of nonresident NBFIs securities holdings (relative to initial levels) for a one-standard deviation increase in the VIX. Regression specification uses an issuer–security type–time fixed effect and an investor–issuer–security type fixed effect.

2. Emerging markets under pressure

Capital outflows are particularly sensitive to NBFIs



Sources: Bank for International Settlements; Emerging Portfolio Fund Research; FactSet; IMF, Balance of Payments Statistics; and IMF staff calculations.

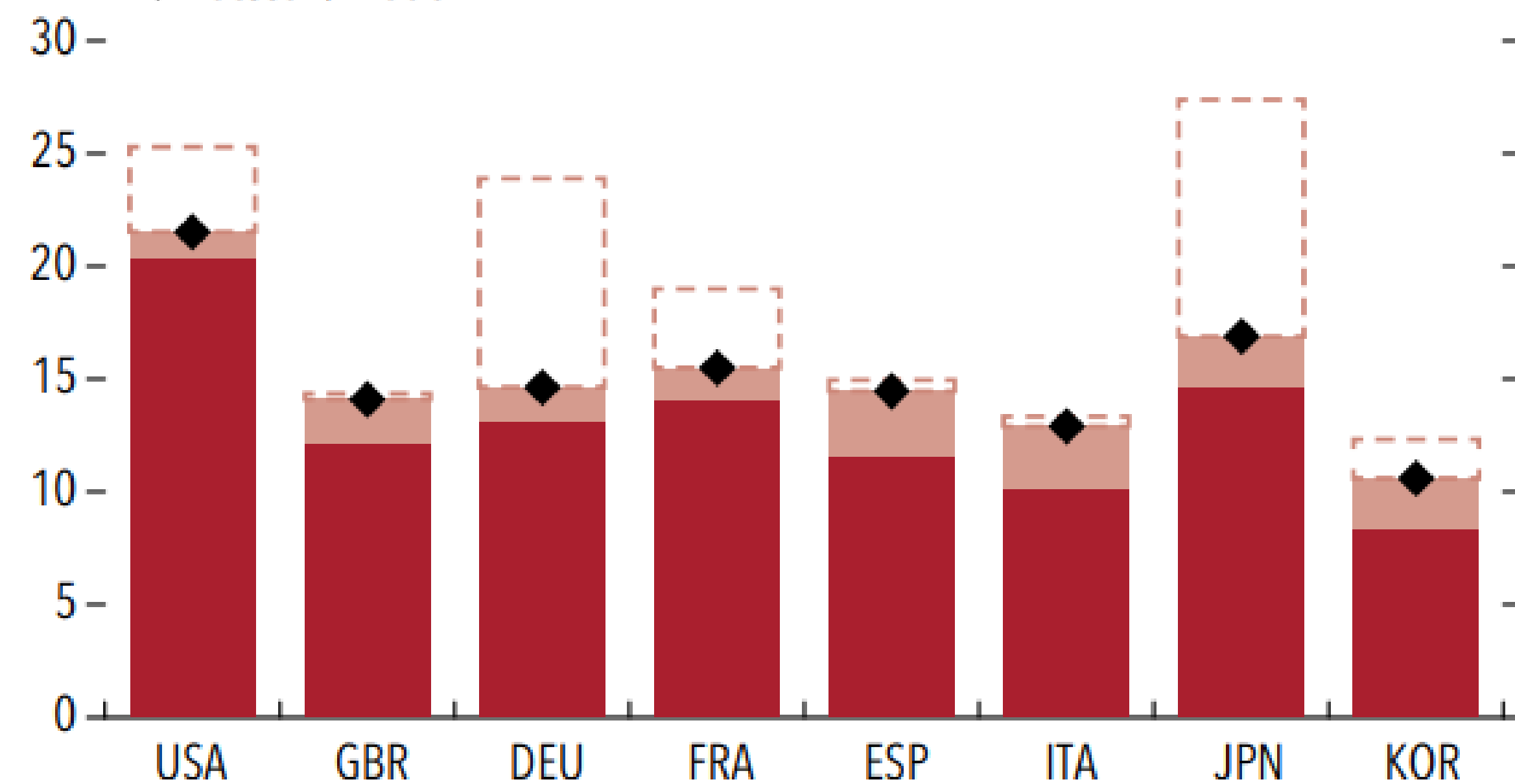
Note: Portfolio investment flows include portfolio debt and equity liability flows, except in panel 1, where portfolio investment of hedge funds includes equities only because of data limitations. On the x-axis, t indicates the quarter of the respective shock: the first quarter of 2013 in panel 1, the first quarter of 2020 in panel 2, and the first quarter of 2022 in panel 3.

3. High and concentrated asset valuations

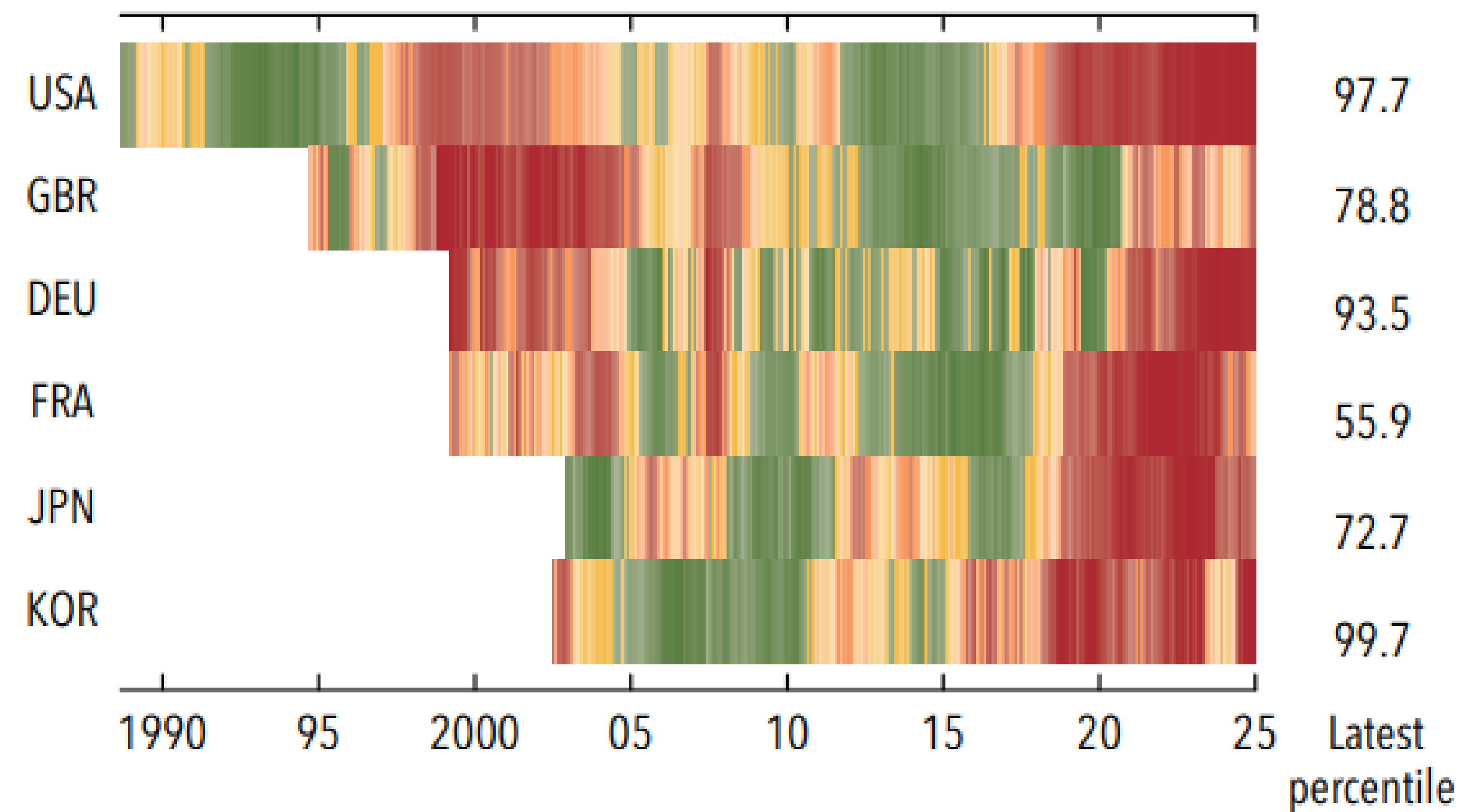
Advanced equity markets have high valuations, high concentration

Twelve-month-forward P/E Ratios (Multiples, actual P/E vs. modeled fair value)

- Max difference between historical P/E ratio and model-implied estimate
- Difference between latest P/E ratio and model-implied fair value estimate
- Latest model-implied fair-value P/E ratio
- Latest P/E ratio



Equity Market Concentration Risk Heat Map (Z-scores of Herfindahl-Hirschman Index)

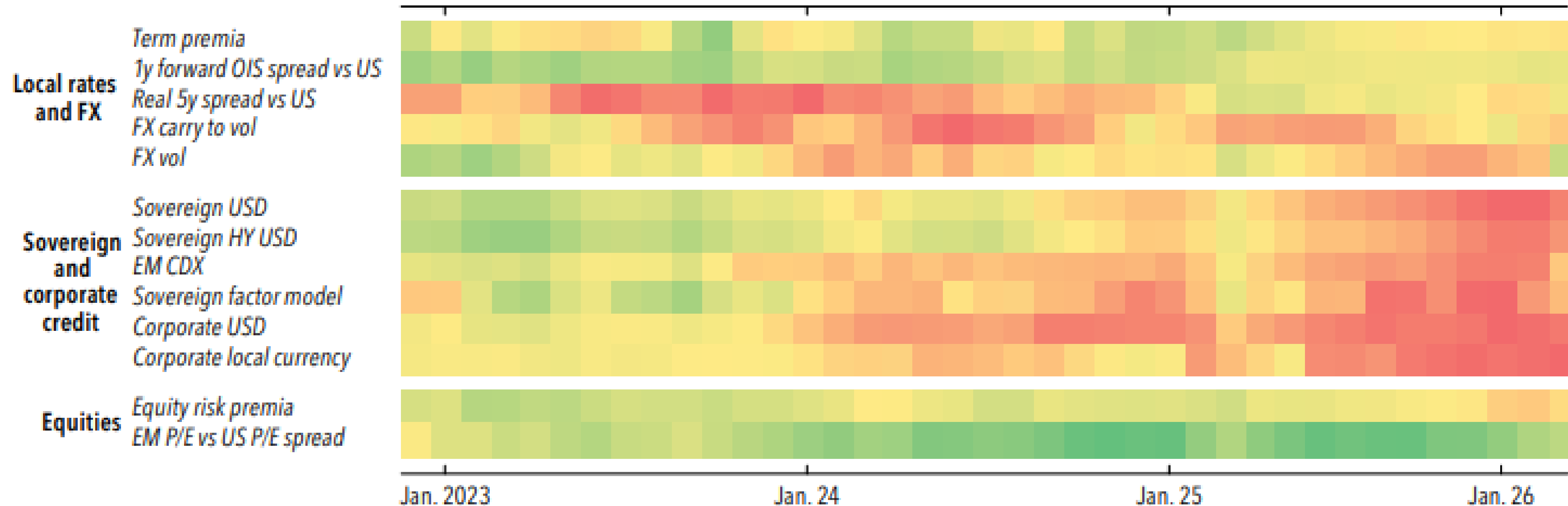


Note: Model-implied fair value estimates of forward P/E in the left panel are a function of various proxies for earnings growth, equity risk premium, and term premium.

3. High and concentrated asset valuations

Emerging market asset valuations have also risen, especially sovereign and corporate spreads

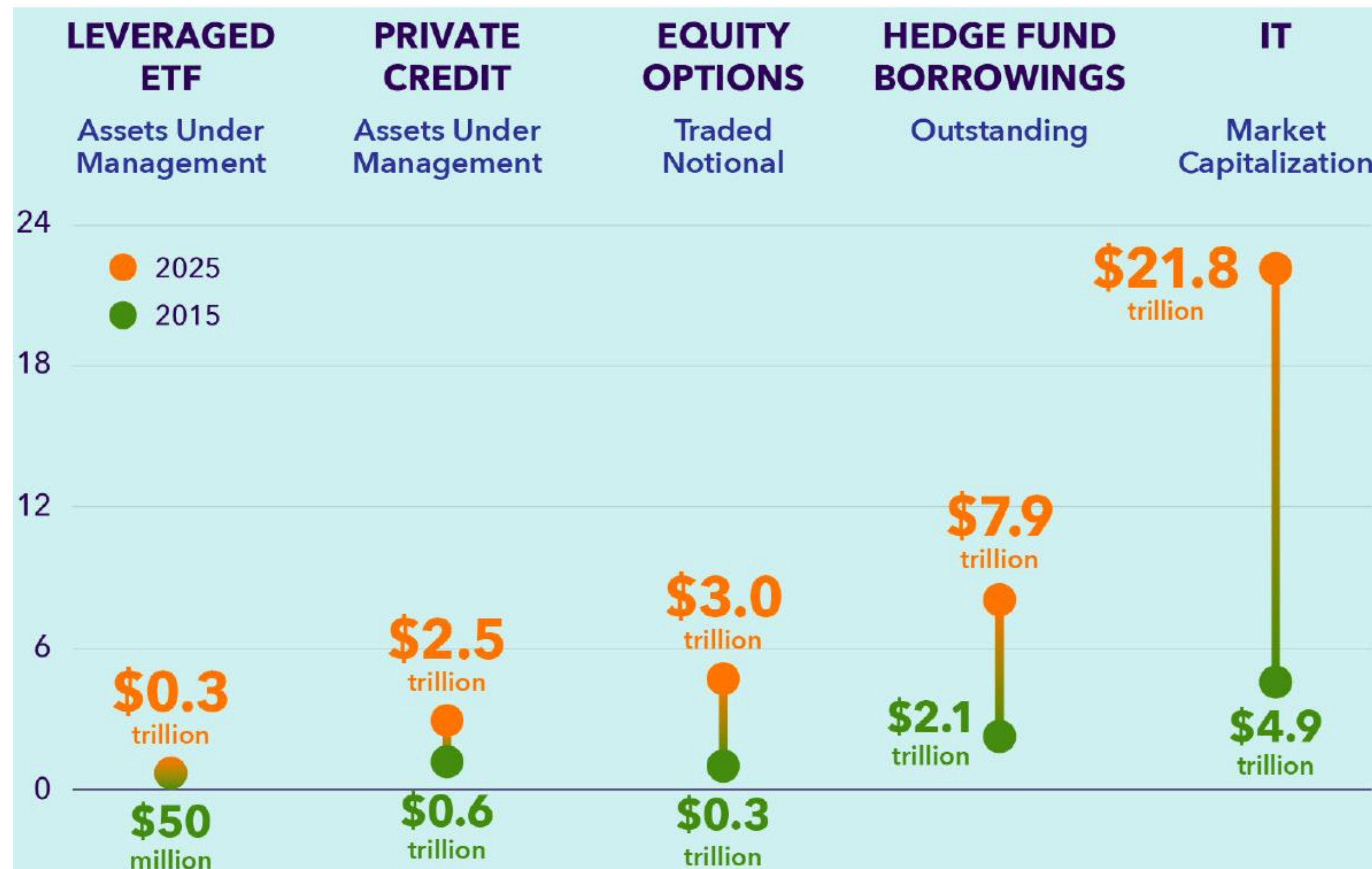
Emerging Market Risk Premiums Heat Map (Red=low risk premiums or higher valuation based on monthly data since 2015)



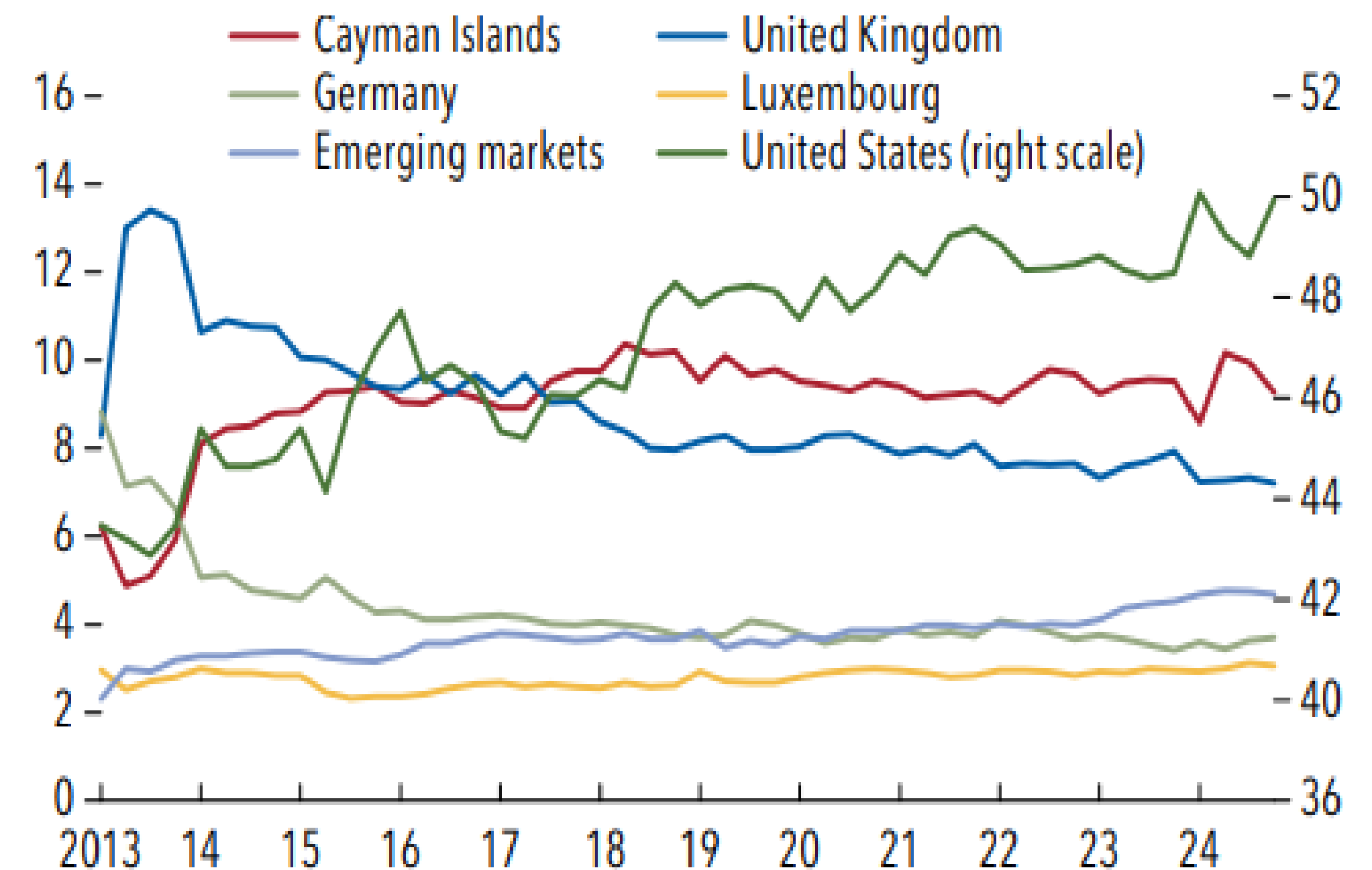
Note: Most indicators are standardized within the country, then averaged across an unbalanced 14-country sample. The sovereign factor model is a panel regression on dollar sovereign spreads, incorporating fundamentals and market indicators, across an unbalanced sample of 70 emerging markets.

4. Amplification channels through financial vulnerabilities

Salient risks could be amplified by elevated vulnerabilities, mostly from nonbank financial intermediaries



Share of Cross-Border Claims on NBFIs Domiciled in a Given Jurisdiction (Percent)

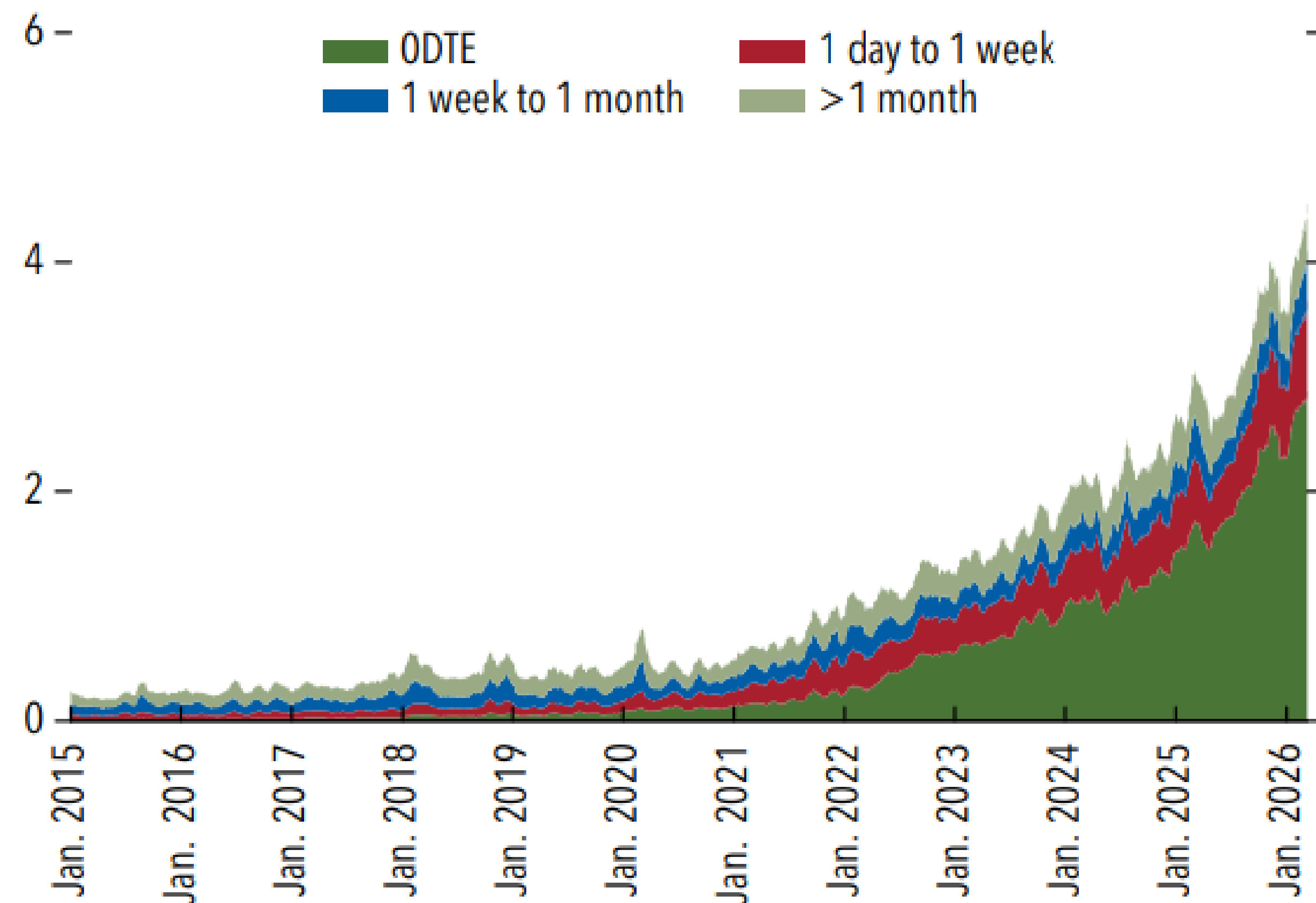


Note: Intragroup positions are netted out, leaving only positions with unaffiliated entities. Nearly half of global bank NBFIs exposures (estimated at 13 percent of world GDP) are cross-border.

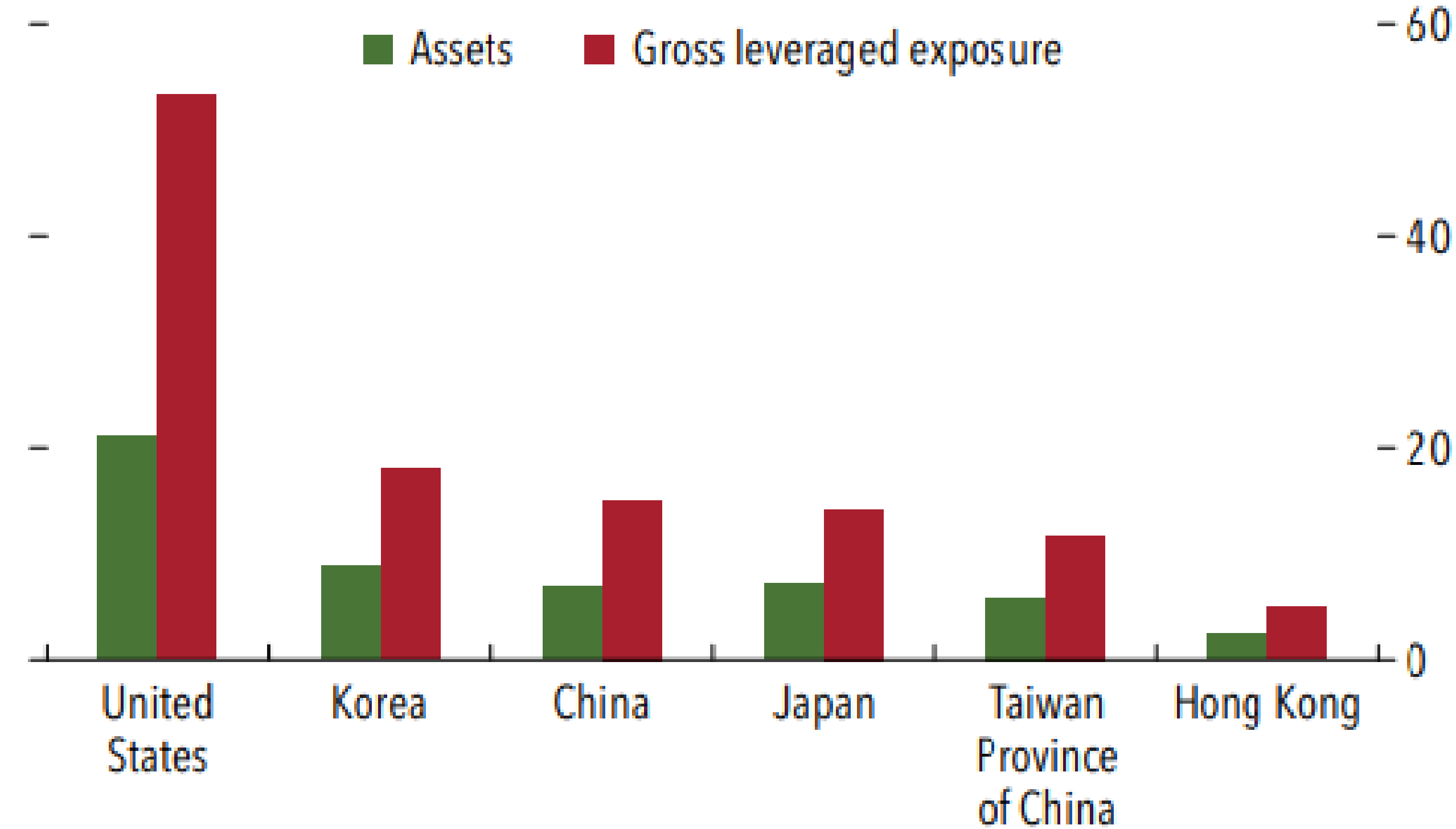
4. Amplification: Options and leveraged ETFs in equity markets

Exuberance in Options and Leveraged ETFs—partly driven by retail investors—could amplify equity market volatility

Index Options Trading Volumes in U.S. Equity Markets (USD trillions)



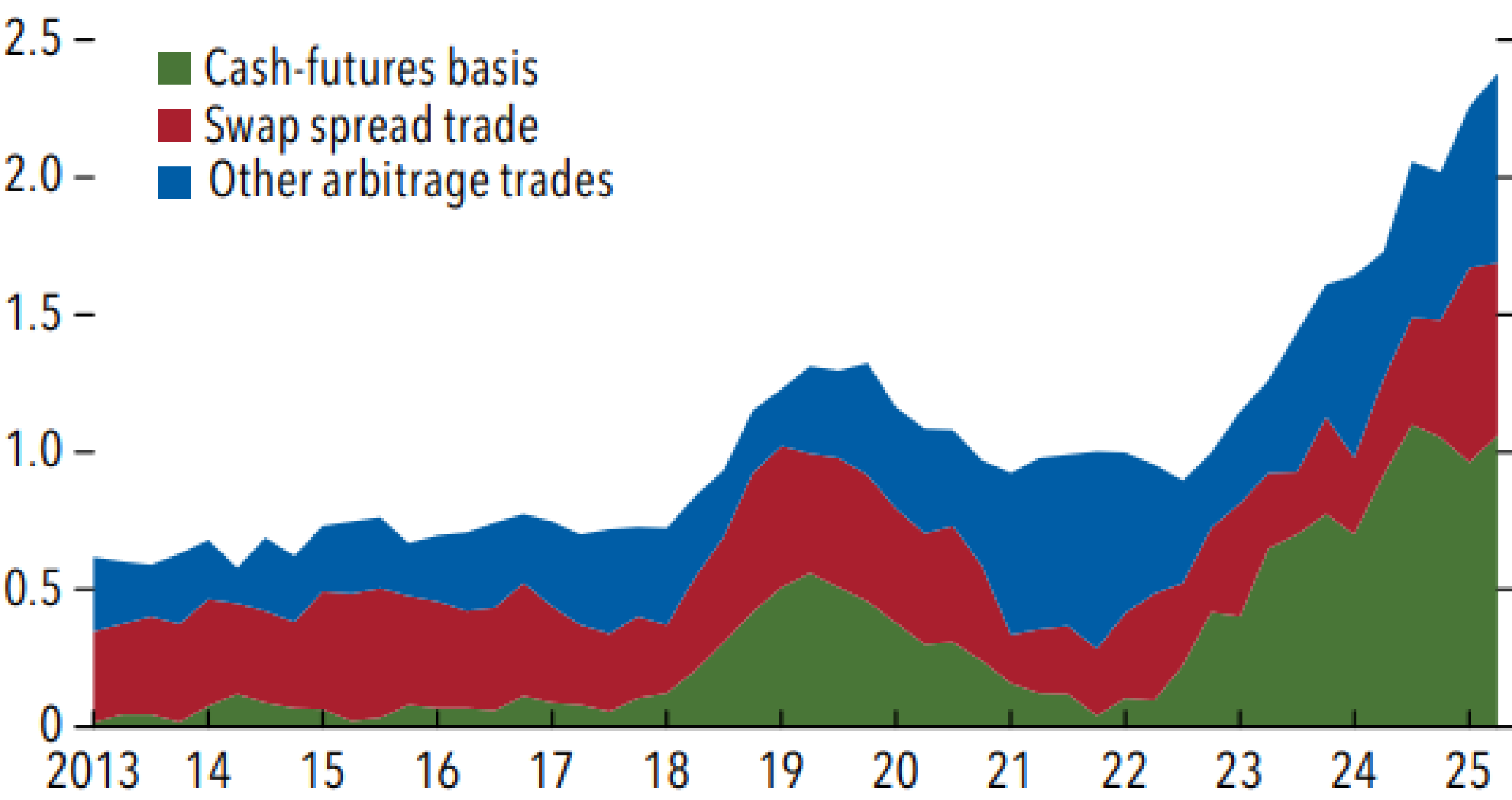
Leveraged Equity ETFs' Assets and Gross Exposure (Basis point of market capitalization)



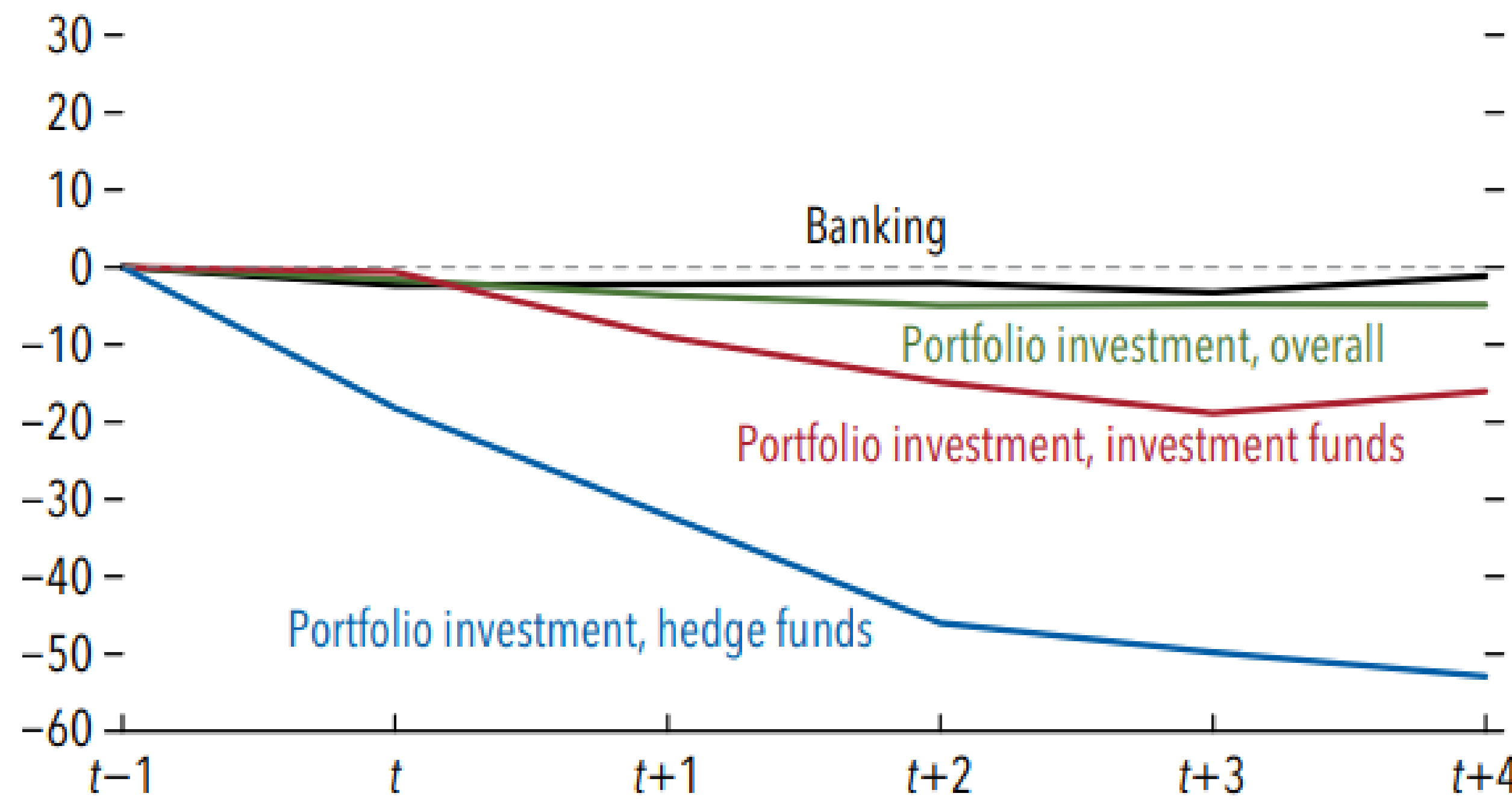
4. Amplification: Hedge funds' expanded role in bond and EM markets

Hedge funds' positions in fixed income has risen significantly; they tend to be flighty EM investors

Relative Value Trades in U.S. Treasury Market (USD trillions)



Cross-Border Flows Into EMs during Fed Tightening in 2022
(Percent of initial stock, cumulative)

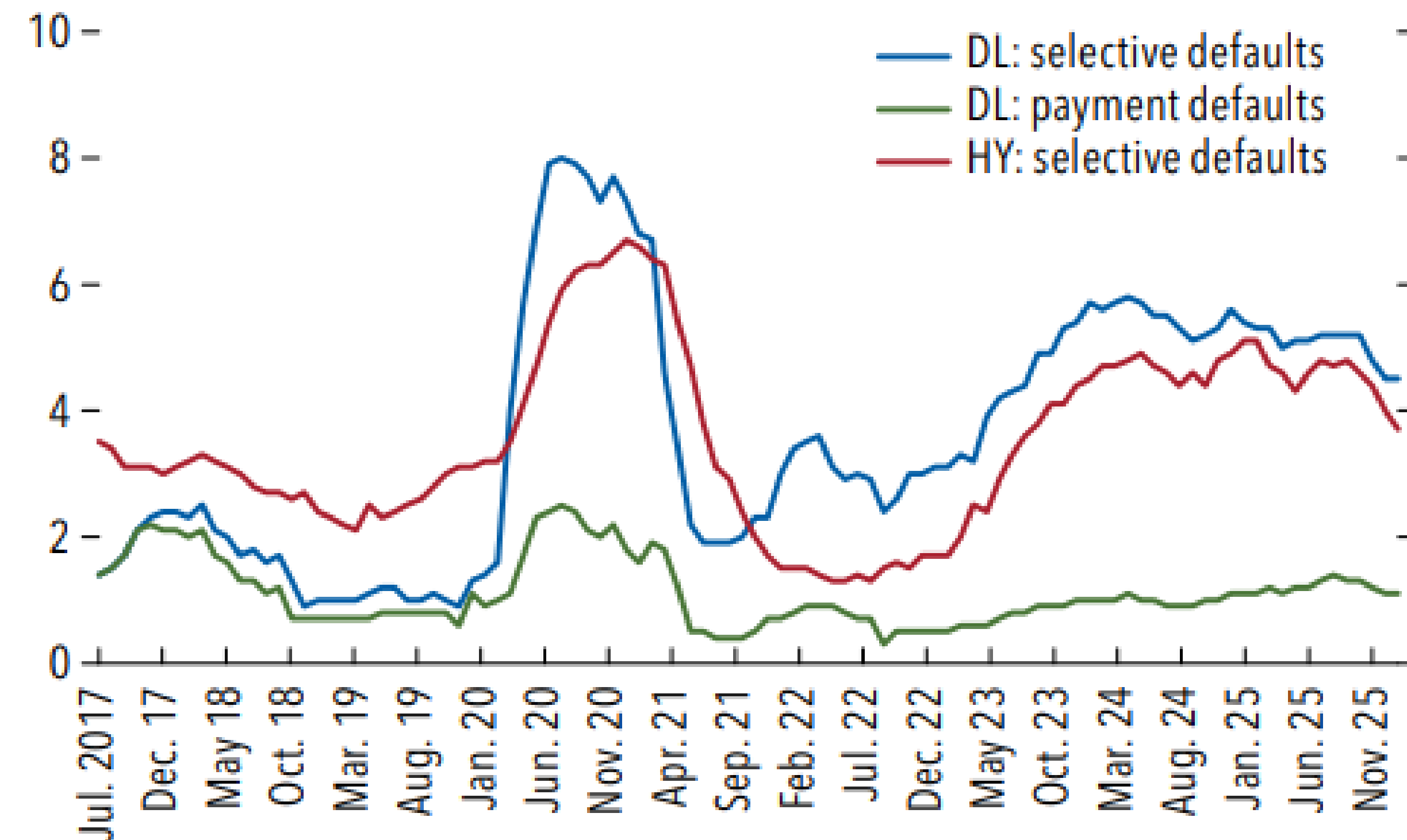


Note: The calculations in the left panel are based on Ehlers and Todorov (2025).

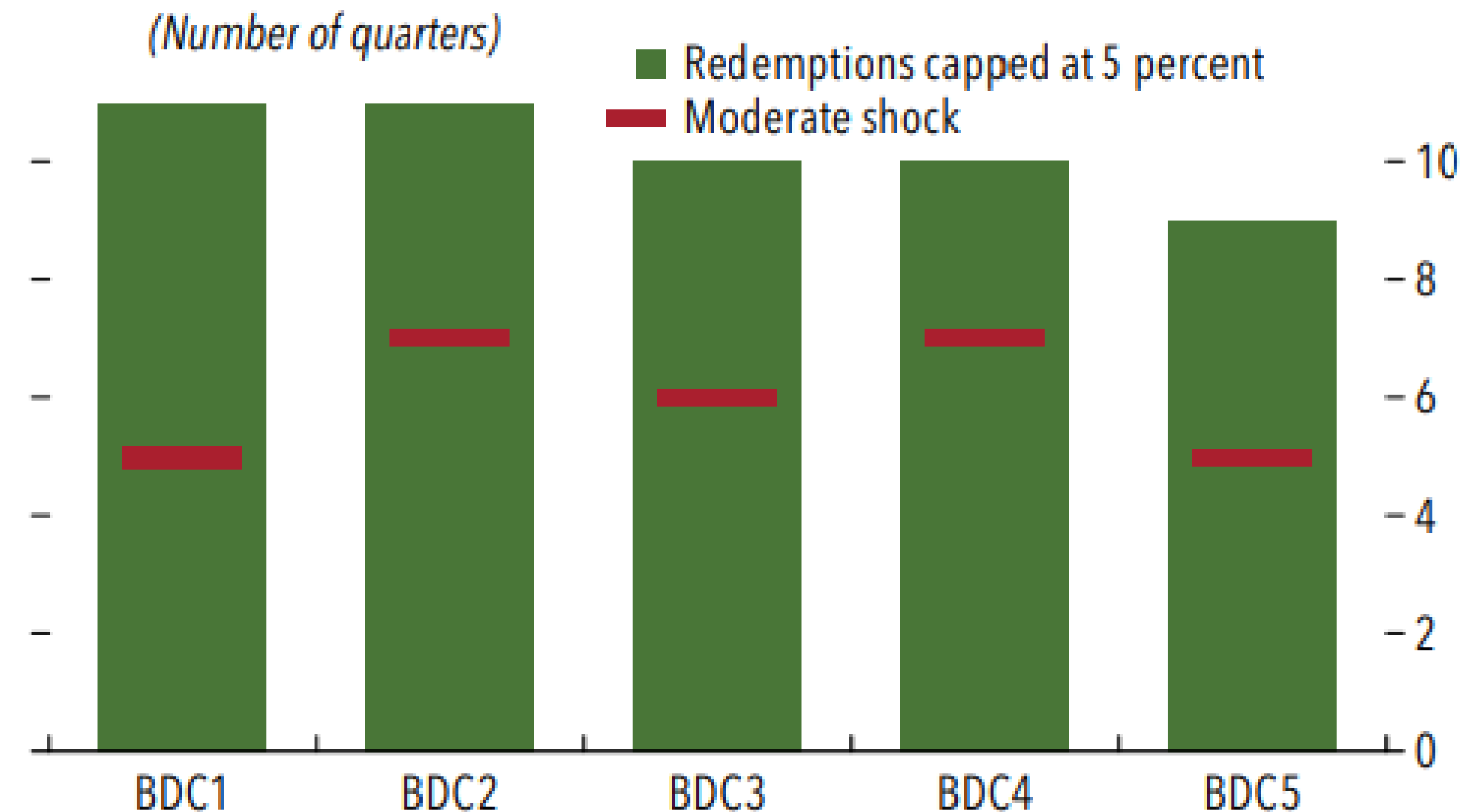
4. Amplification: The \$4 trillion private credit market

Credit quality deteriorating modestly, semi-liquid funds facing redemption pressure

Direct Lending Default Rates (Percent)



Time to Liquidity Gap for Nontraded Business Development Companies



Note: In the left panel, direct lending figures are based on the set of credit estimates reviewed by S&P Global. In the right panel, “Moderate shock” considers redemptions capped at 5 percent and no additional collateralized or unsecured sources of liquidity.

4. Amplification: Artificial Intelligence “circularity”

Firms involved in circular financing do not have weak balance sheets, but their investment activities impact weaker firms

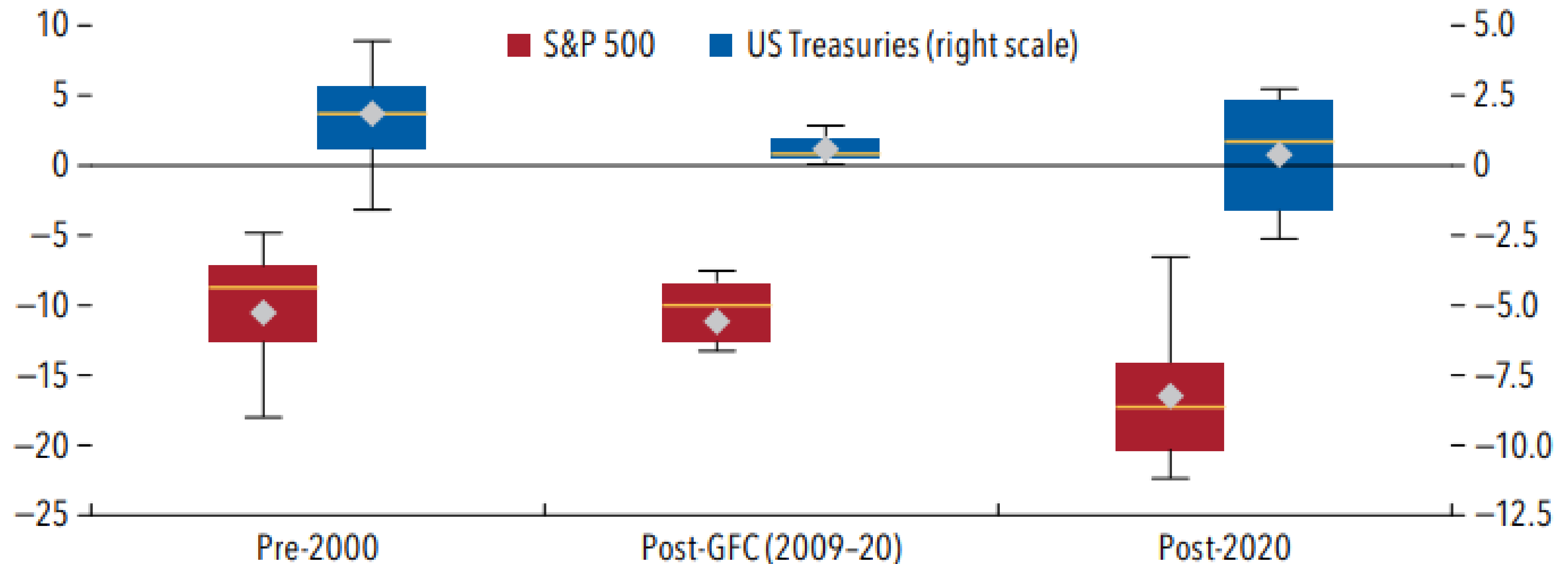
		Shares		Vulnerabilities					Overall Vulnerability Score
		Revenue	Debt	Leverage	Liquidity	Profitability	CAPEX intensity	Valuations	
Broad AI	Builders	6%	5%						
	Energizer	6%	13%						
Core AI	Developer - Chips	21%	16%						
	Developer - Hardware	4%	5%						
	Operator - Hyperscalers	61%	55%						
	Operator - GPU/Neocloud	0%	1%						
	Operator - Data managers and software	1%	2%						
	Operator - Data center	1%	4%						
Firms involved in circular financing		14%	18%						

Note: Red refers to higher vulnerabilities in the form of higher leverage, capital intensity, and valuations, and lower liquidity and profitability. The AI ecosystem includes 73 public and private firms from Australia, Canada, China, Hong Kong SAR, Korea, The Netherlands, Taiwan Province of China, the United Kingdom, and the United States.

4. Amplification: Equities and bonds sell off at the same time

During “bear markets”, stock and bond sell-offs have become more concurrent and larger in recent years

Distribution of S&P 500 and Treasury Bond Returns During Bear Market Episodes (Percent)



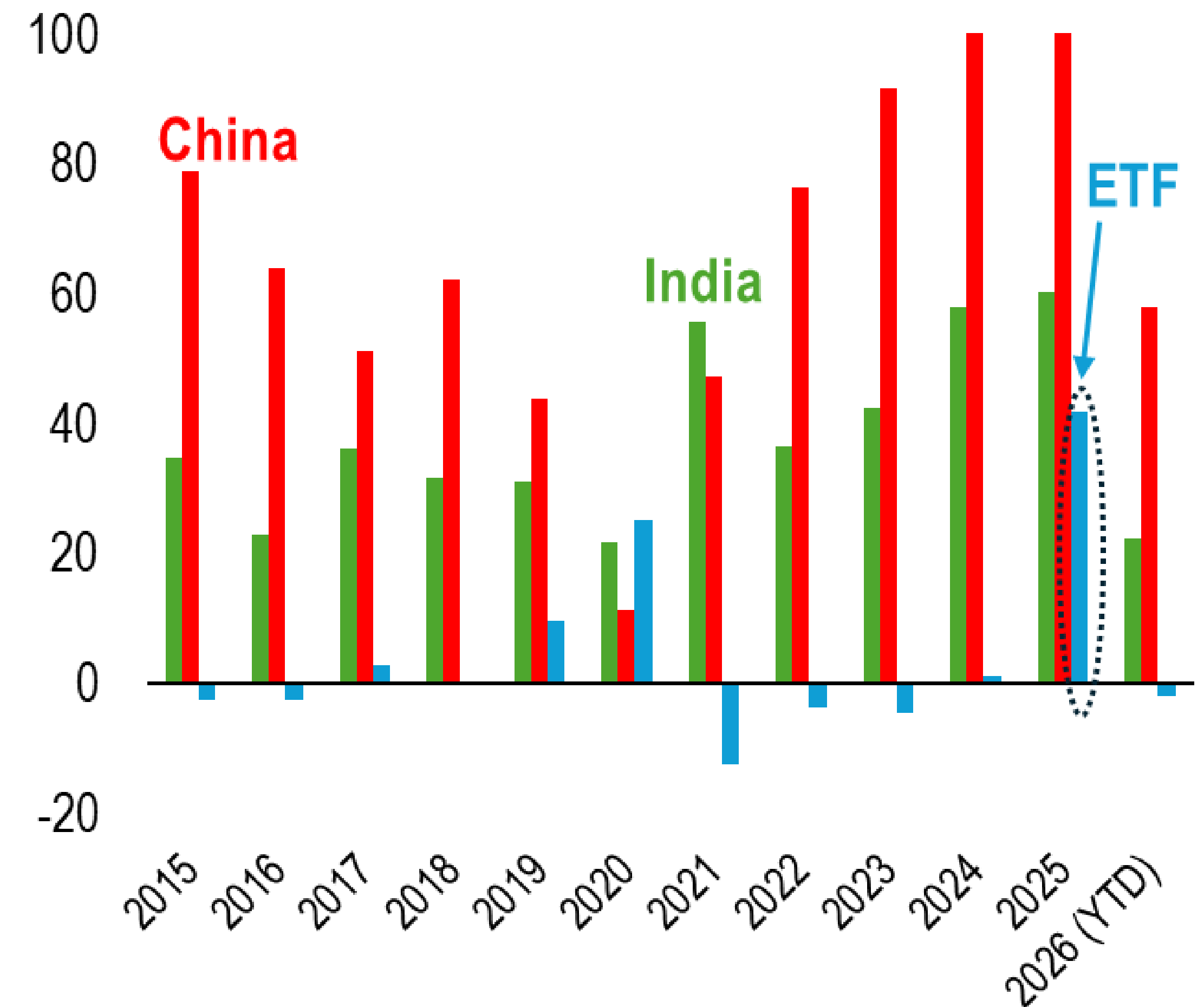
Note: Bear market episodes are identified using Bry and Boschan (1971) as at least 5 percent cumulative downward correction within nonoverlapping windows, and with window length no fewer than five consecutive trading days. Returns included in each period's box, more specifically, reflect peak-to-trough moves greater than 5 percent. Mean returns are depicted by diamonds, while yellow lines depict median returns.

For discussion: dominant currency and safe assets

The U.S. dollar's international status

US Dollar...	2014	2024 or 2025
...in FX reserves (share)	66 percent	58 percent
...in trade invoicing (share)	61 percent	56 percent
...in FX and IR derivatives turnover (share)	69 percent	63 percent
...assets held by foreign investors (percent of world ex-U.S. GDP)	28 percent	39 percent

Net gold imports and gold ETF flows (USD billions)



Elevated financial stability risks requires policymakers to act decisively

POLICIES

- Enable accessible liquidity and funding facilities in the event of acute market stress
- Be attuned to spillovers from actual inflation to inflation expectations
- Rebuild fiscal buffers and place public debt on a sustainable path
- Implement globally agreed prudential banking standards
- Strengthen oversight on nonbank financial intermediaries

