Figure 1.10. Financial Risk Taking and Volatility

Unconventional policies shift the normal risk-return trade-off of monetary policy.

1. Risk-Return Trade-offs under Different Monetary Policies

Unconventional policies shift the normal risk-return trade-off of monetary policy.

![Graph showing risk-return trade-offs under different monetary policies.]

- **Normal monetary policy**
- **UMP (Easy policy) — low rate**
- **Risk-return trade-offs**

Sources: Bloomberg L.P.; and IMF staff calculations.

Note: A decline in the policy rate shifts the efficient frontier (from blue to orange) and moves the optimal portfolio from A to B. A decline in volatility with UMP shifts the efficient frontier again (from orange to red) and the optimal portfolio moves from B to C. UMP = unconventional monetary policy.

2. Volatility and Asset Price Percentiles

Low volatility and high asset prices are highly synchronized.

![Graph showing volatility and asset price percentiles.]

- **Maximum volatility percentile**
- **Median price percentile**

Sources: Bloomberg L.P.; and IMF staff calculations.

Note: The eight asset classes are advanced economy equities; emerging market equities; advanced economy bonds; emerging market bonds; corporate credit; advanced economy foreign exchange rates; emerging market foreign exchange rates; and commodities.