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)

![Graph showing the impact on U.S. 10-Year Treasury and Speculative-Grade Bond Yields under Shock Scenarios.]

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.

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

3. Probability of Quarterly Loss (Percent)

![Graph showing the probability of quarterly loss.]

Sources: Barclays; and IMF staff calculations.

Note: MBS = mortgage-backed securities.

Monetary normalization could trigger outflows...

2. Barclays Aggregate Six-Month Flows versus Return

![Graph showing Barclays Aggregate Six-Month Flows versus Return.]

Source: Barclays.

Note: AUM = assets under management.

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


![Graph showing the estimated impact on increase in volatility and U.S. rates on emerging market local-currency government bond yields.]

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 TIE [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).