Figure 1.9. Asset Valuations

Equity valuations in the United States have continued to rise well above precrisis highs ...

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

Corporate spreads remain very low, given creditworthiness of borrowers.

Housing market valuations have surged in many advanced economies.

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.