U.S. Financial Market Conditions

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Hesna Genay
Vice President and Director of Policy and Communications
Federal Reserve Bank of Chicago

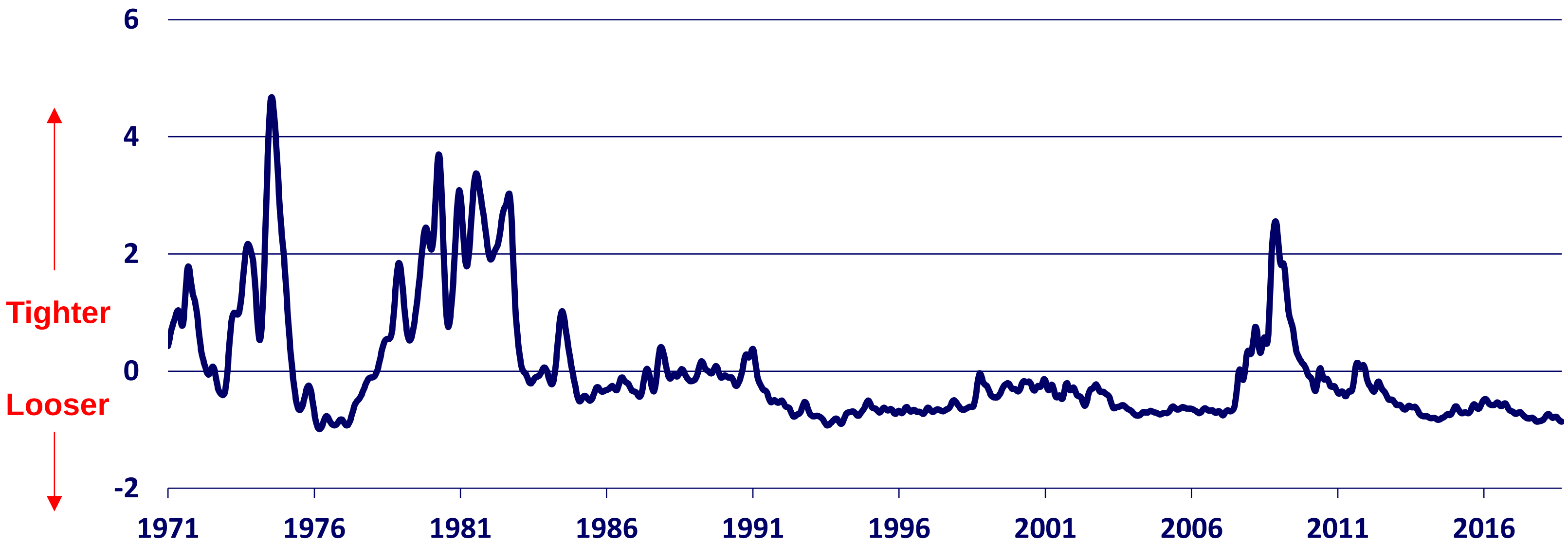
The views I express here are my own and do not necessarily represent the views of the Federal Reserve System or the Federal Reserve Bank of Chicago

Overview

- **Broad financial conditions**
- **Closer look at selected market segments and sectors**
- **International developments and U.S. financial conditions**

Broad US Financial Conditions – Accommodative

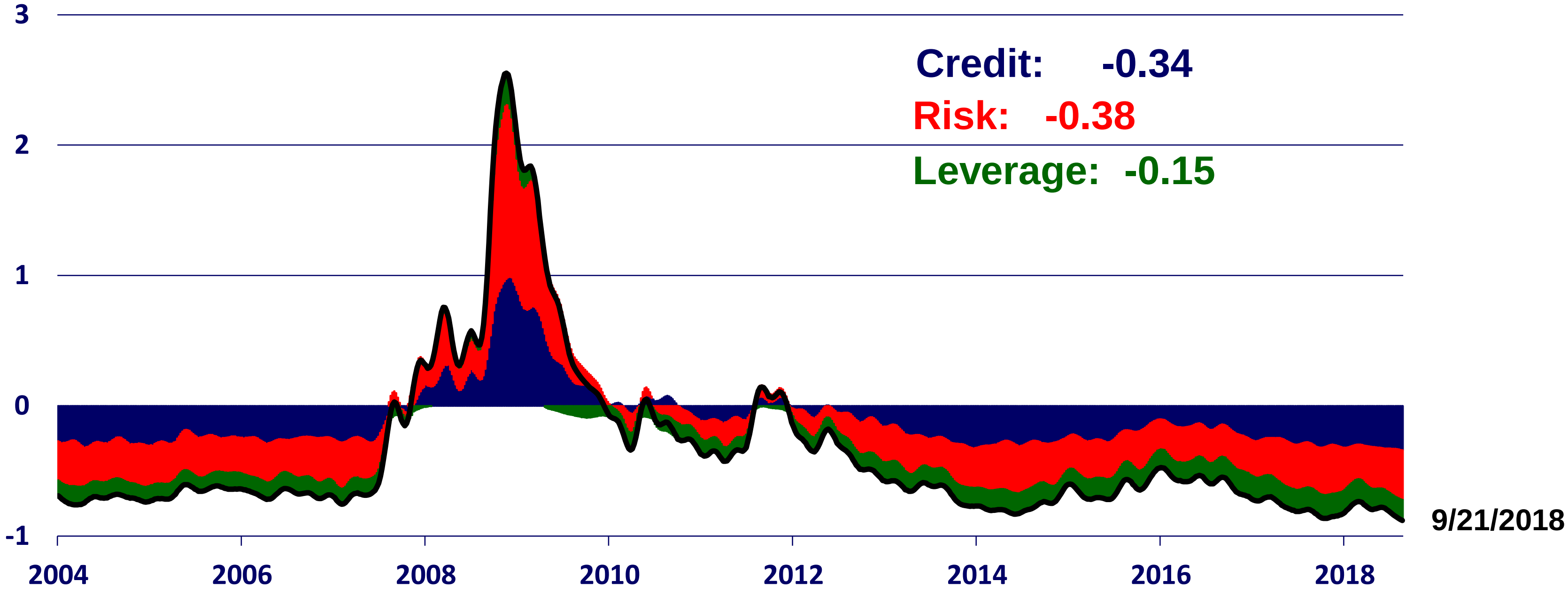
Chicago Fed National Financial Conditions Index (NFCI)
(standard deviations from average conditions since 1971)



- **Weighted average of 105 financial indicators; mixed frequency dynamic factor analysis**
- **Highly correlated with other FCIs;**
- **Largest positive weights: spreads and volatility measures;**
- **Largest negative weights: credit volumes and market depth measures**

Individual Categories: Accommodative

Contributions to NFCI

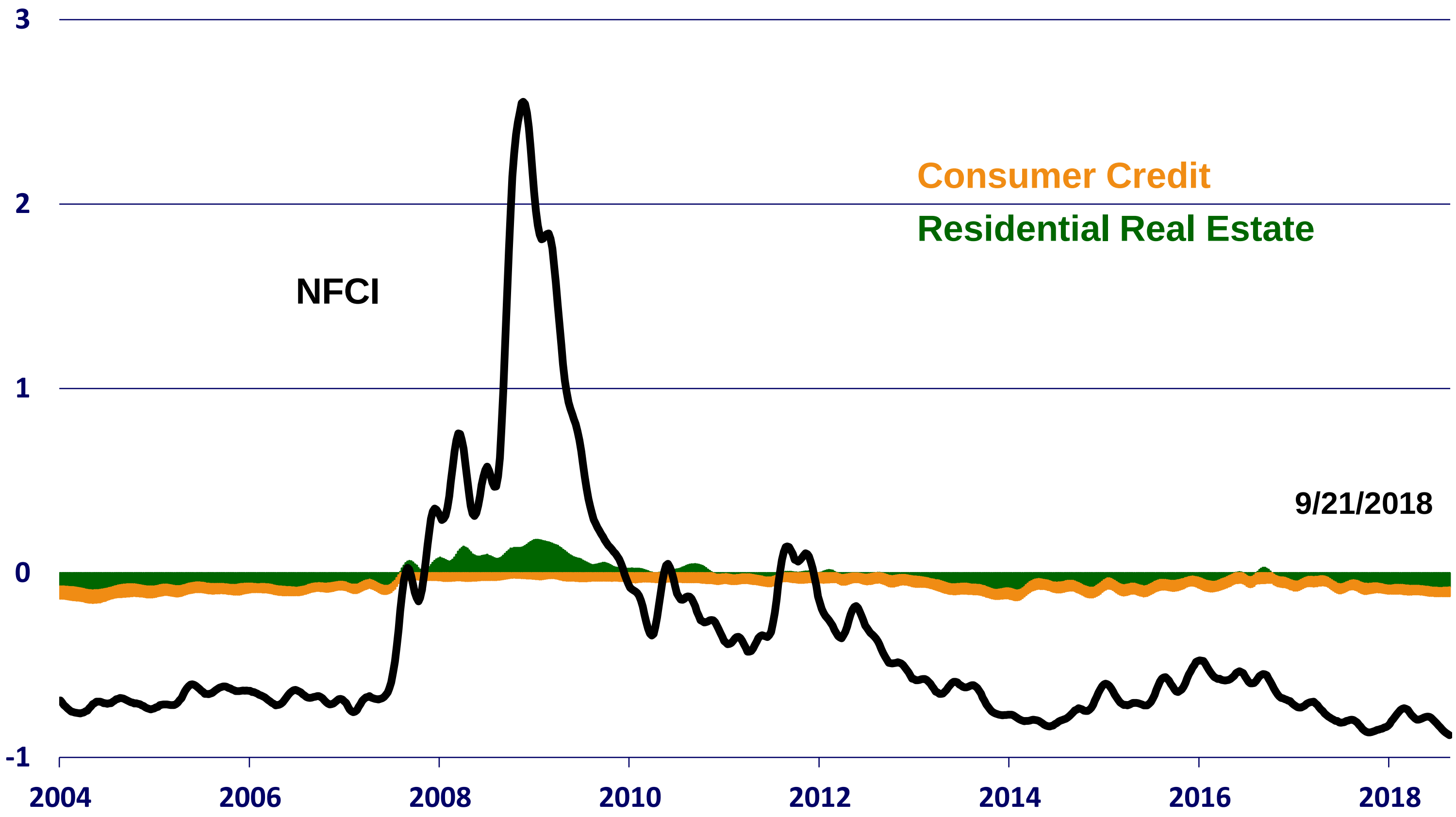


- **Risk: Volatility and funding risk measures; coincident indicator of current conditions**
- **Credit: Spreads , volumes, survey measures of credit conditions; lagging indicator**
- **Leverage: Debt relative to equity; leading (~one-year) indicator**

Source: Federal Reserve Bank of Chicago

Financial Conditions Supportive of Consumer Spending

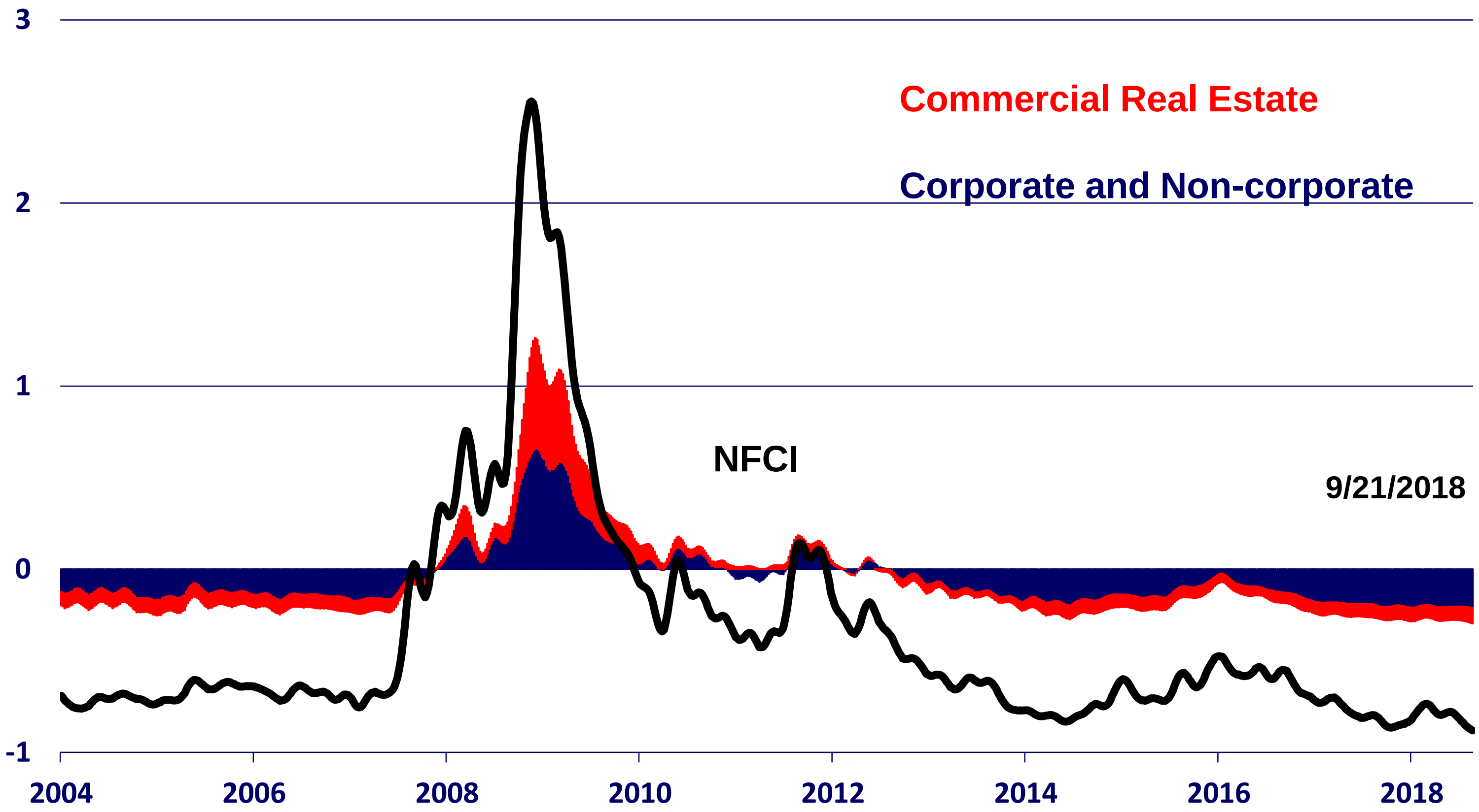
Contributions to the NFCI



Source: Federal Reserve Bank of Chicago

Business Financial Conditions: Accommodative

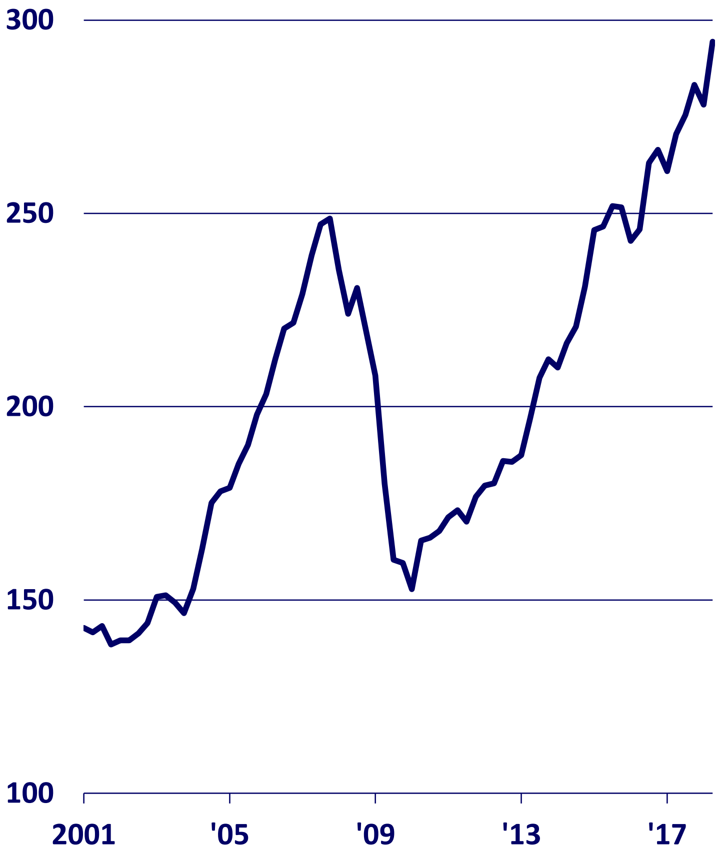
Contributions to the FRBC-NFCI



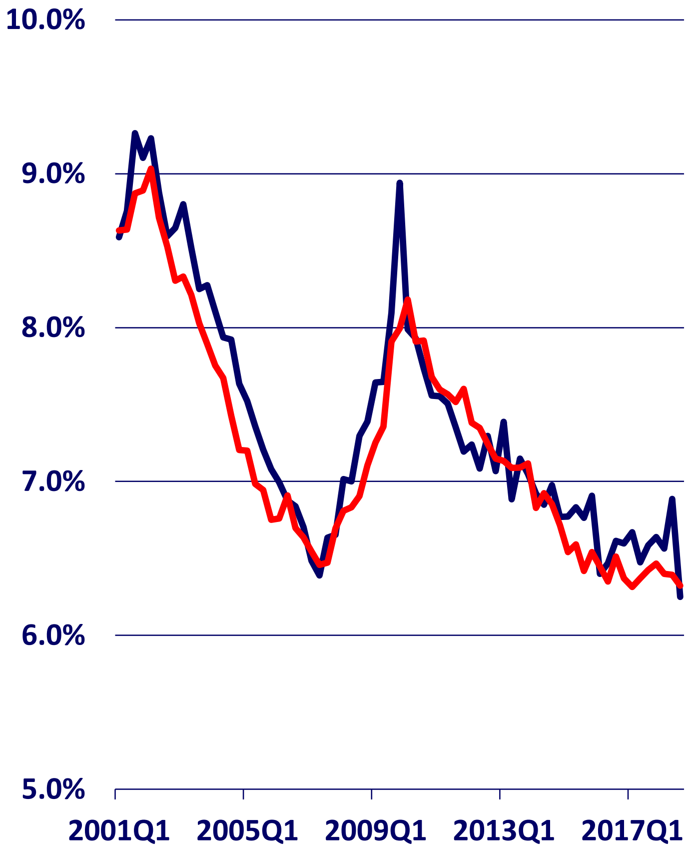
Source: Federal Reserve Bank of Chicago

Commercial Real Estate (CRE) Markets

CRE Price Index

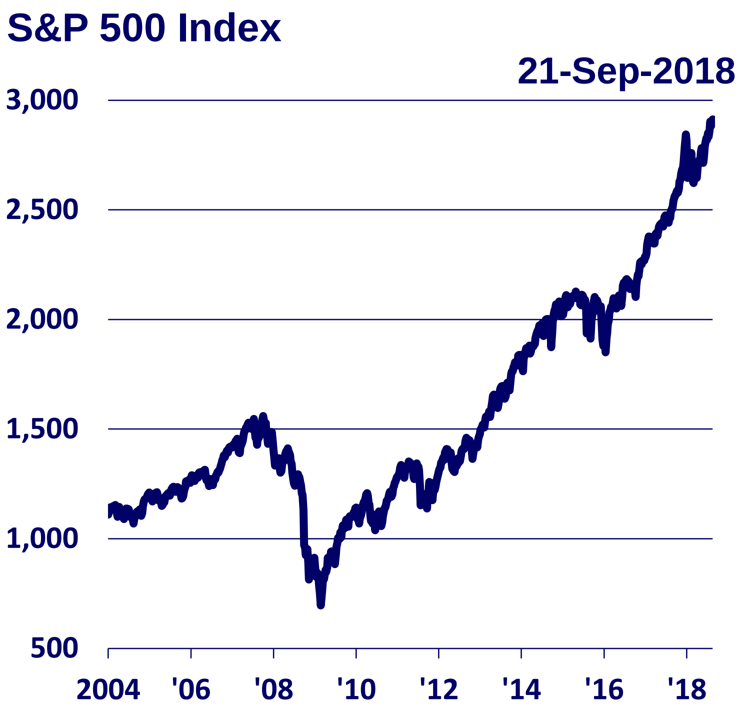


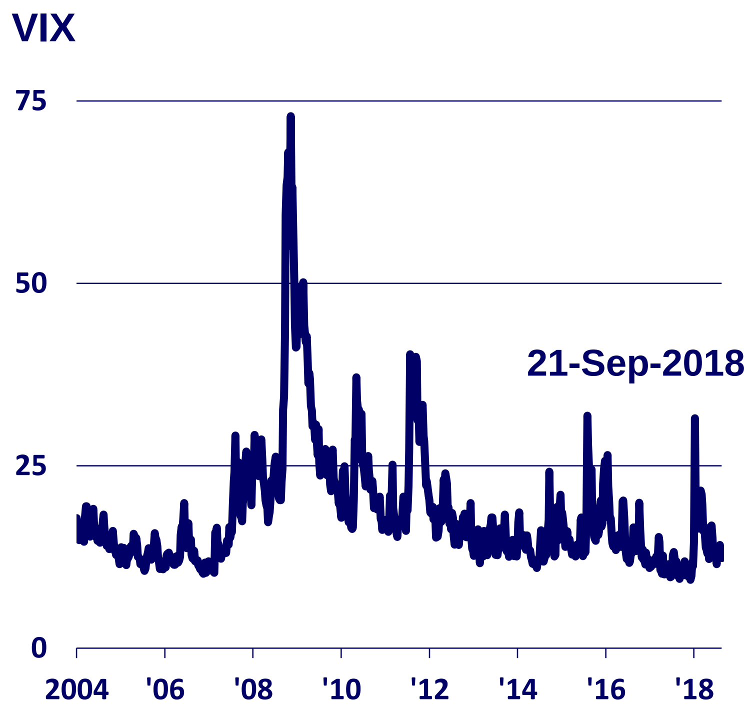
CRE Capitalization Rates
(percent)



The capitalization rate or "cap" rate is the ratio of net operating income produced by a property to the price paid
Source: Federal Reserve Board from Haver Analytics and Real Capital Analytics

Robust Stock Market Gains and Low Volatility





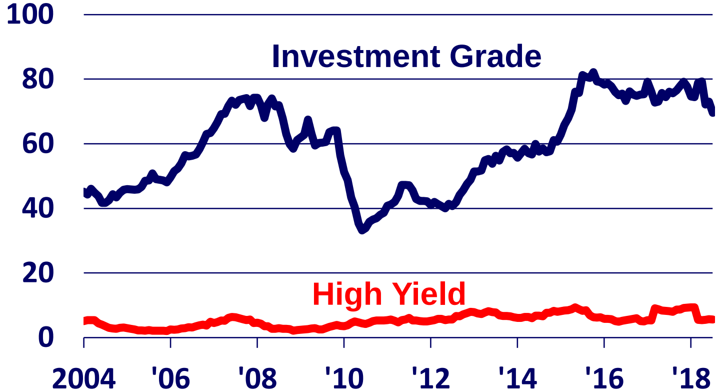
- **Strong U.S. growth fundamentals and momentum, tax reform, and robust earnings among factors supporting equity price gains**
- **Volatility: The spike earlier in 2018 eased; current levels at historically low levels**

Source: Wall Street Journal from Haver Analytics

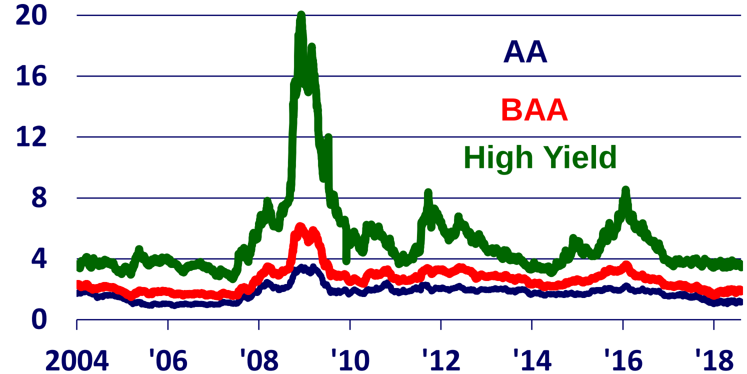
Source: Wall Street Journal from Haver Analytics

Financial Conditions for Businesses

US Domestic Bond Issuance
(12-month average, bn of $)

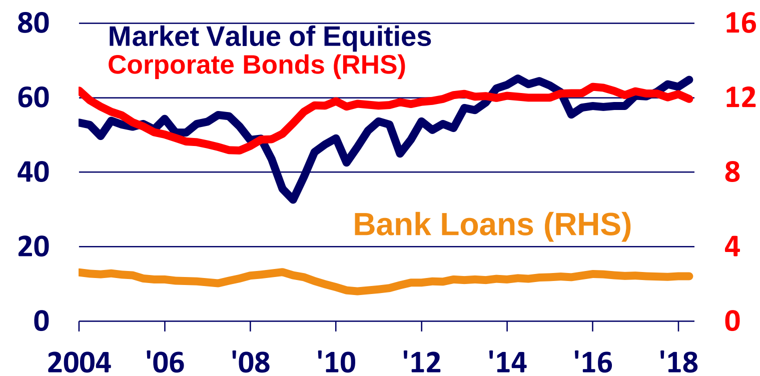


Corporate Bond Spreads
(yield minus treasury 10yr)



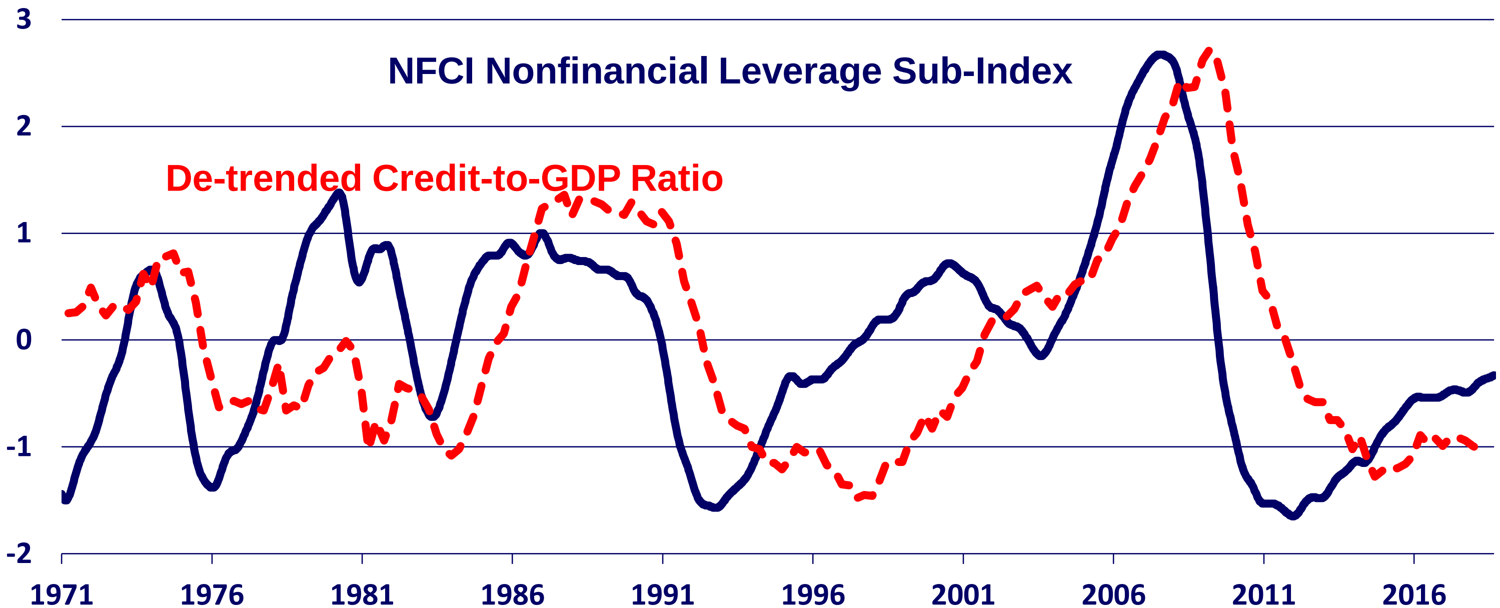
1 Year Forward P/E Ratio, S&P 500

Nonfinancial Corporate Equity and Debt
(as a percentage of total assets)



Source: Moody's Analytics, ICE BofA Merill-Lynch, Bloomberg, and Board of Governors of the Federal Reserve System

Credit Cycles and Early Warning Indicators

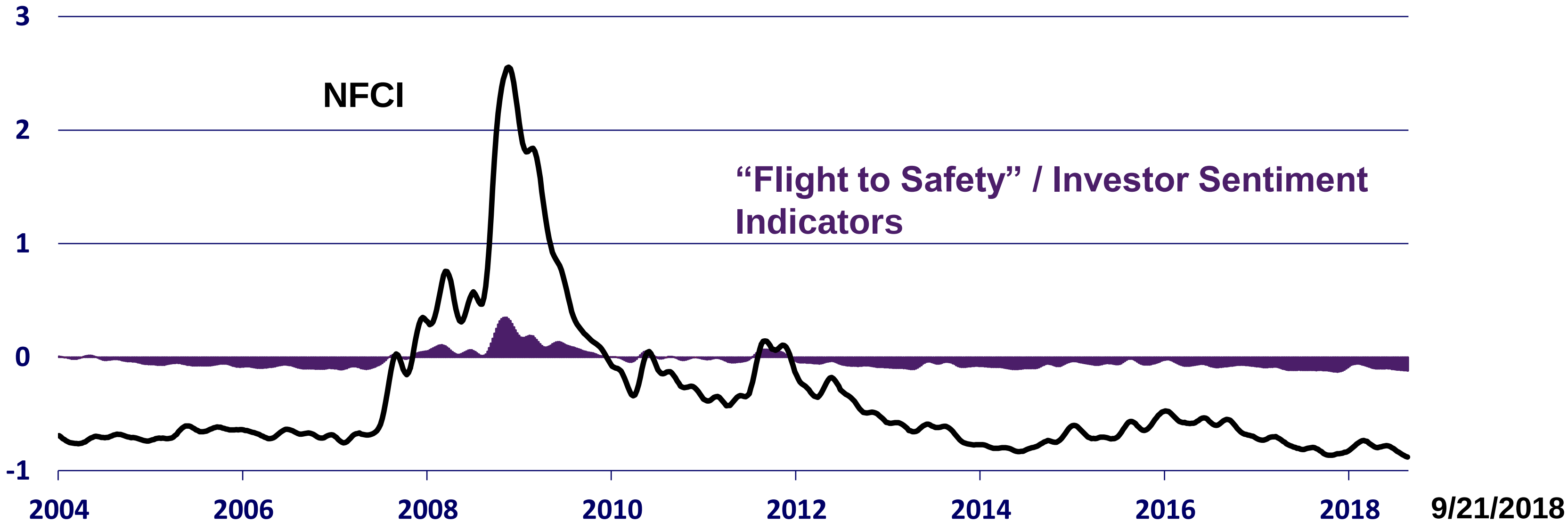


- **NFCI Nonfinancial Leverage: Growth in nonfinancial (household and business) leverage**
- **Early (2-3 years ahead) indicator of financial stress**
- **Like other growth-based measures of credit-to-GDP, seems to capture turning points earlier than de-trended level measures**

Source: Federal Reserve Bank of Chicago

International Developments and the NFCI

Contributions to the NFCI

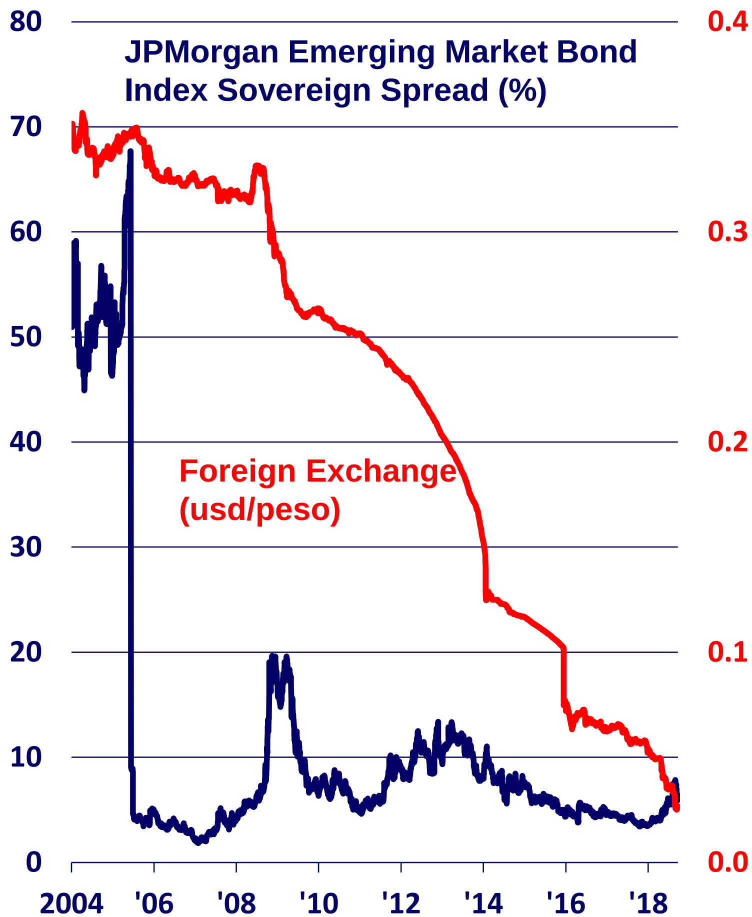


- **On net, relatively small impact from international developments – as measured by a small set of indicators – on overall financial conditions in the U.S.**
- **Effects tend to be somewhat greater if other measures of risk aversion are included, at higher frequencies, and with respect to specific events (e.g. foreign CB announcements); closely tied to investor sentiment**
- **"Flight to safety" – 10 Year Treasury Yield, U.S. Trade Weighted Broad Dollar Index, VIX, 1-Mo Merrill Lynch Options Volatility Expectations, 3-Mo Merrill Lynch Swaption Volatility Expectations, Wilshire 5000**

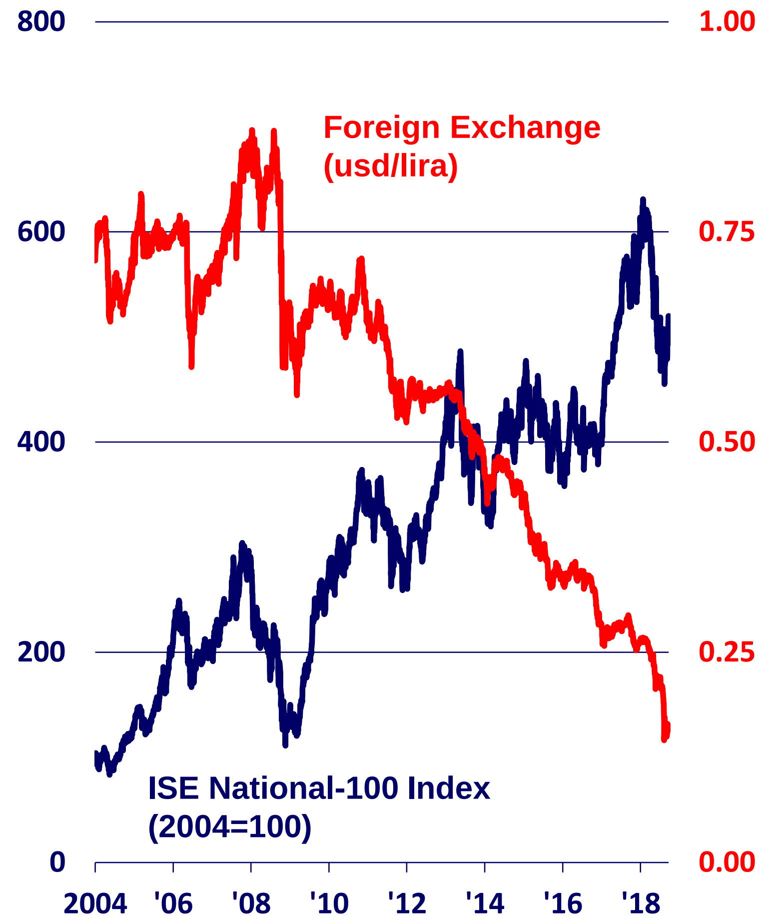
Source: Federal Reserve Bank of Chicago

Recent Stresses in Argentina and Turkey

Argentina



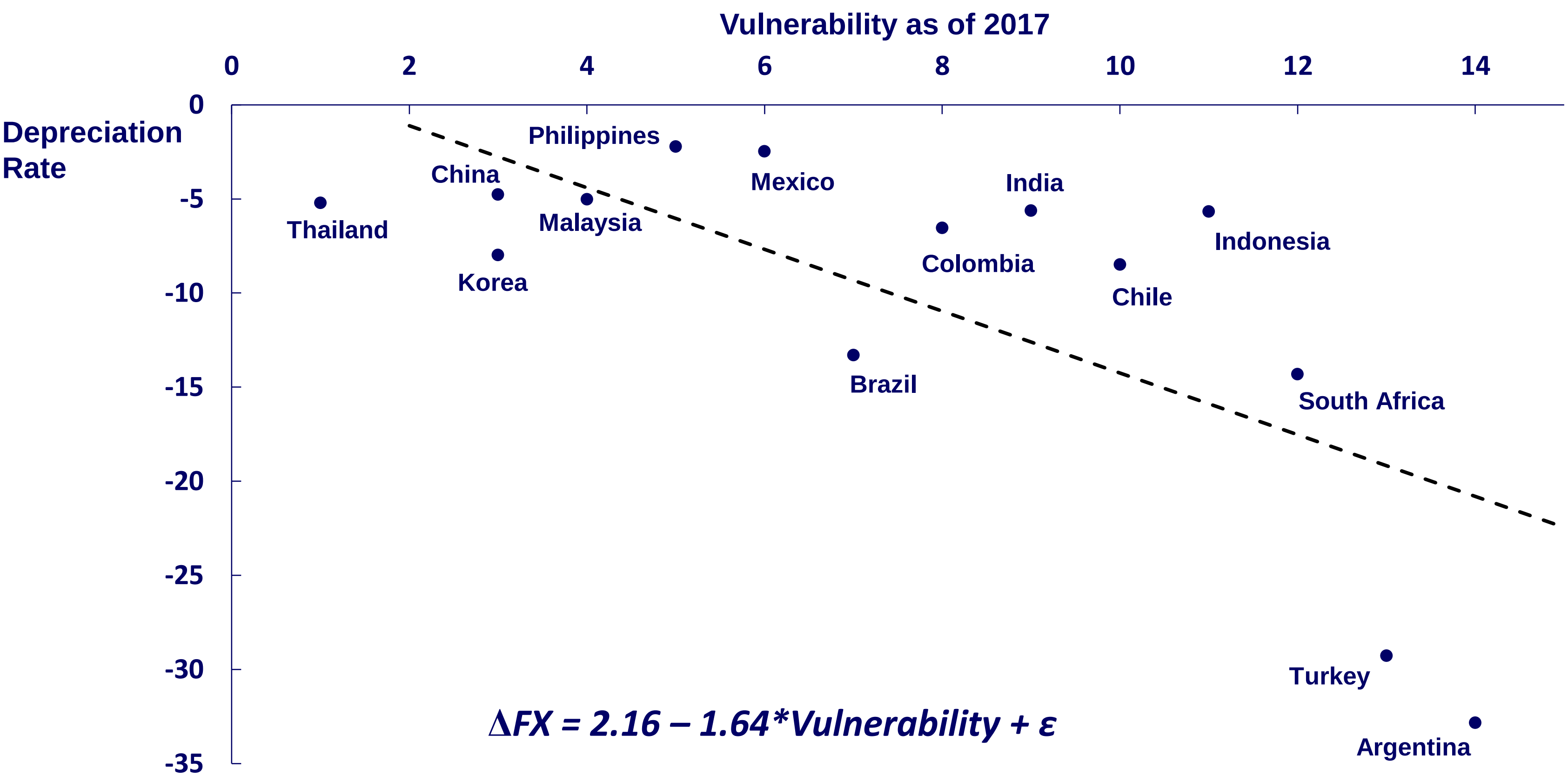
Turkey



Source: JPMorgan, Financial Times, and national central banks from Haver Analytics

EME Vulnerabilities and Currency Depreciation

Currency Depreciation since April 2018
(percent)



Source: Board of Governors of the Federal Reserve System from Haver Analytics

Summary

- **Accommodative financial conditions: overall and by market segment and sectors**
- **Pockets of elevated risks counterbalanced by healthy banking sector and liquid market conditions**
- **Early warning indicators of financial stress remain moderate**
- **So far, limited impact of fluid international market conditions on overall U.S. financial conditions**