



# **Global Financial Conditions and Local Capital Markets**

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# Financial Markets Point to Downside Economic Risk

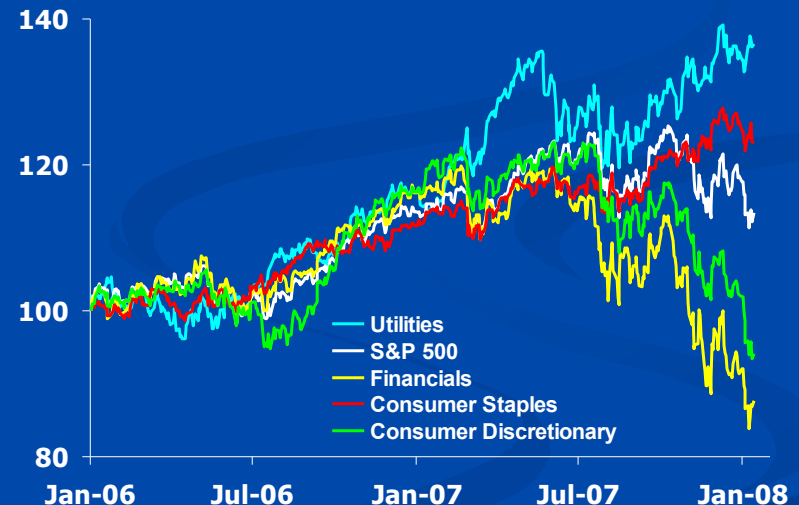
Equities are declining and real bond yields have fallen...

...as US financial and consumer sectors weaken...

## Equities and Inflation-Linked Bonds

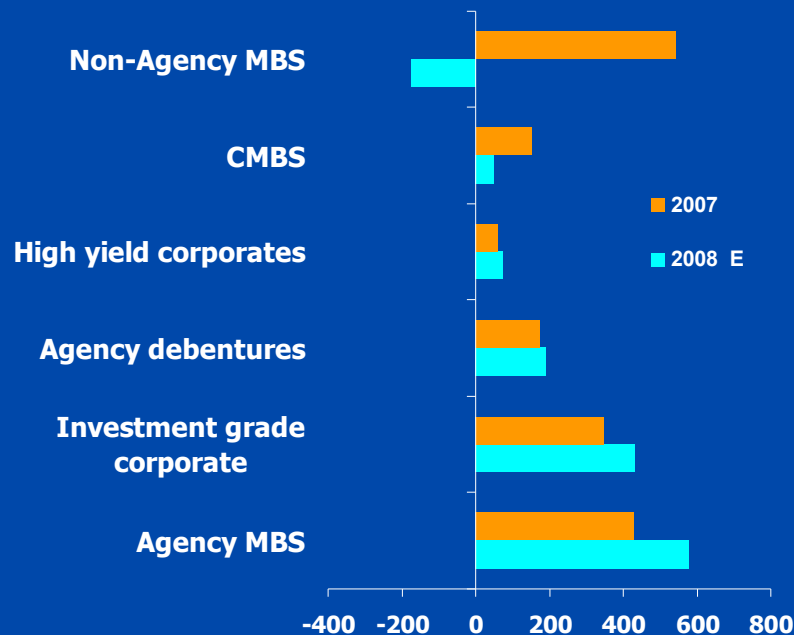


## Equity Sector Rotation

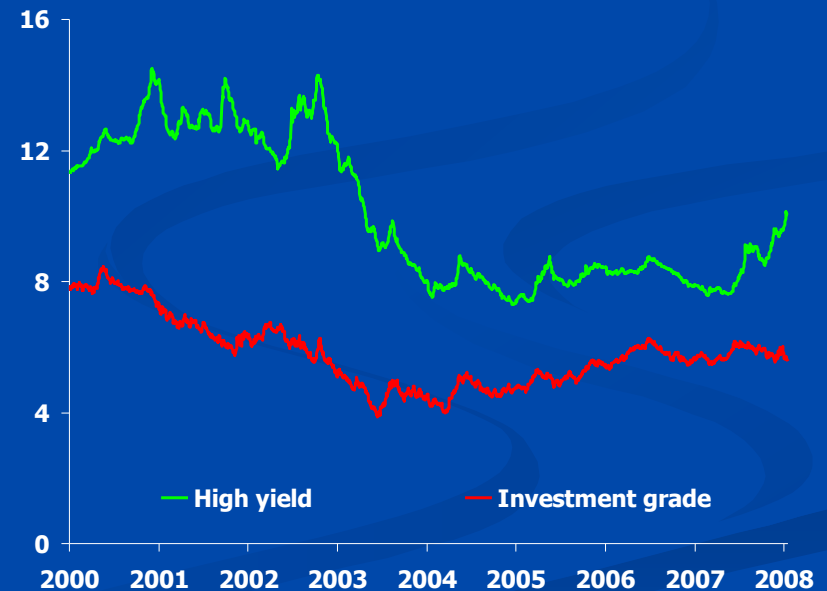


# Total bond issuance set to decline as nonprime borrowers pay higher rates

## U.S. Private Net Debt Issuance (US\$ bn)

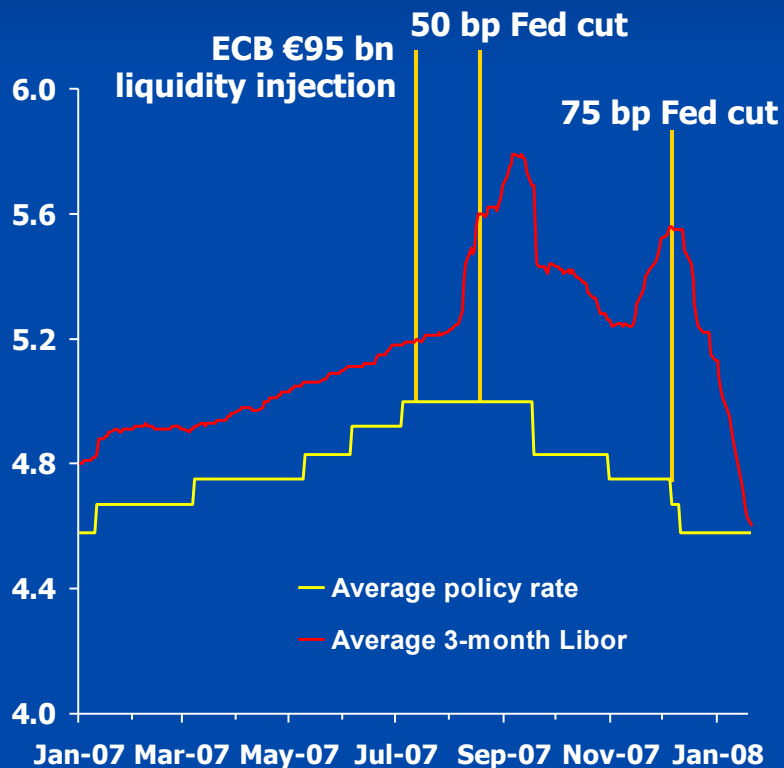


## Investment and Noninvestment Grade Rates (percent)



# Funding pressures persist despite drops in interbank rates

## Average Libor and Policy rates in Euro area, UK, US (in percent)



## Libor Spreads to OIS (avg. of Euro area, UK, US, in basis points)



# Emerging equity and bond markets have been relatively more resilient

## Equity Market Performance (1/1/2007 = 100)



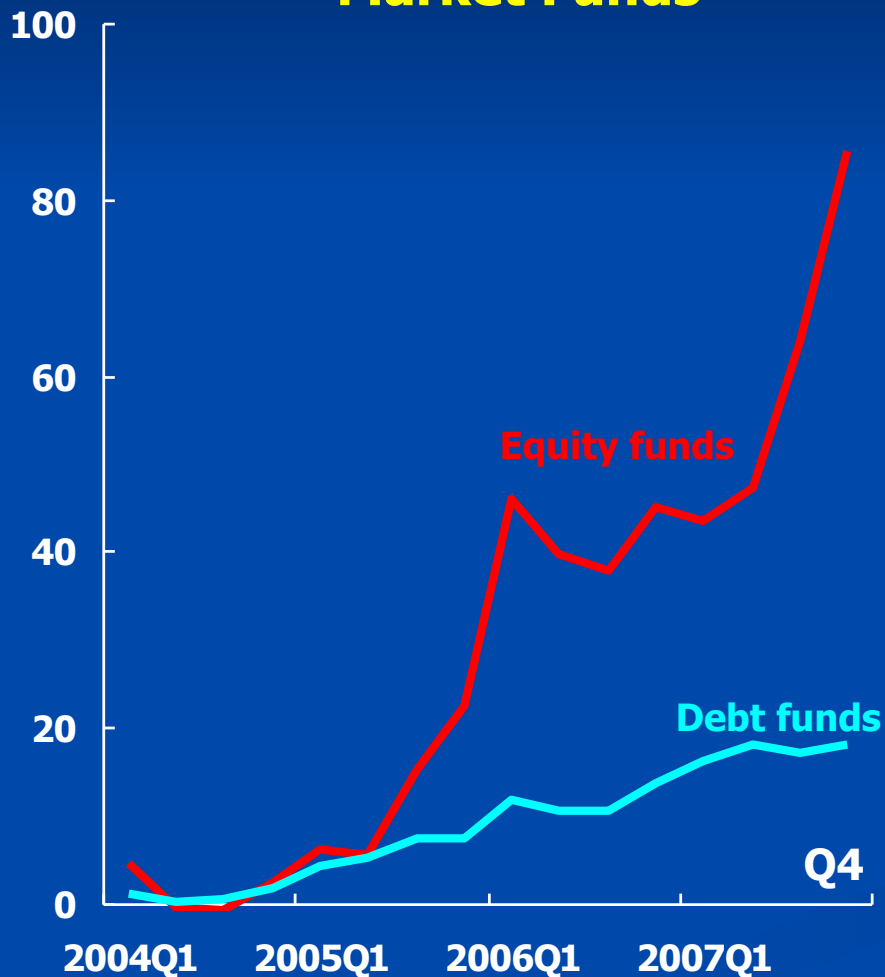
## EMBIG and High Yield Spreads



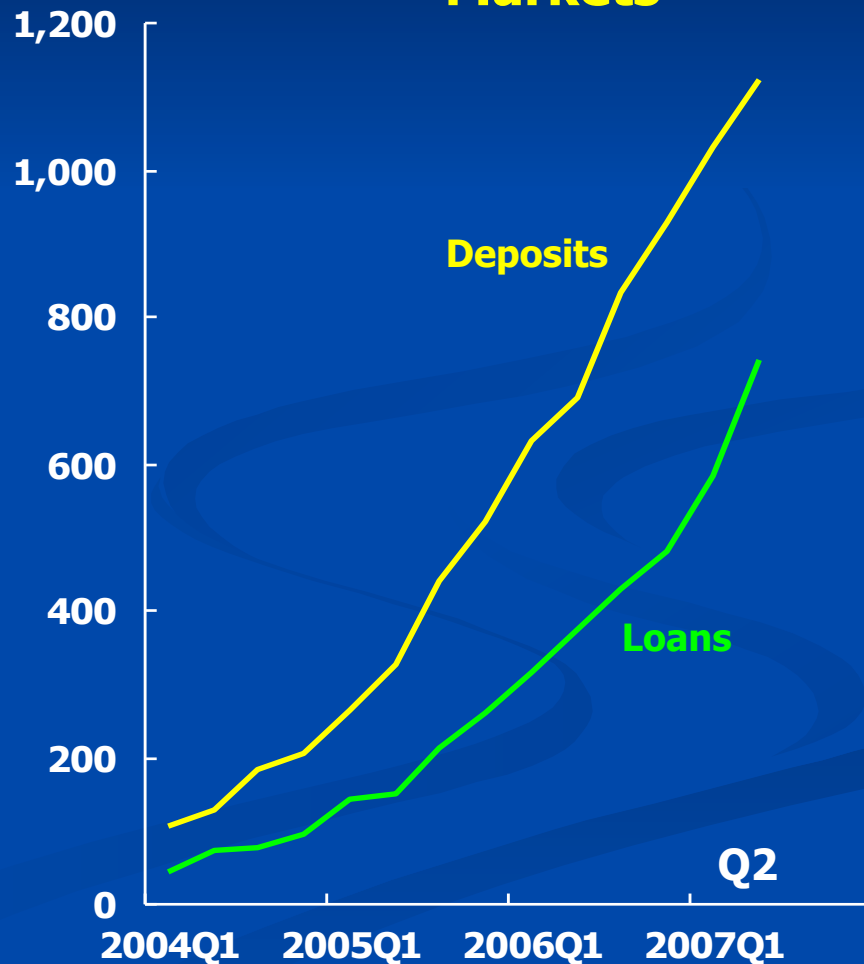
# Capital Flows to Emerging Markets Have Largely Been Supported By Good Fundamentals

*(cumulative flows; in billions of U.S. dollars)*

## Net Flows to Emerging Market Funds



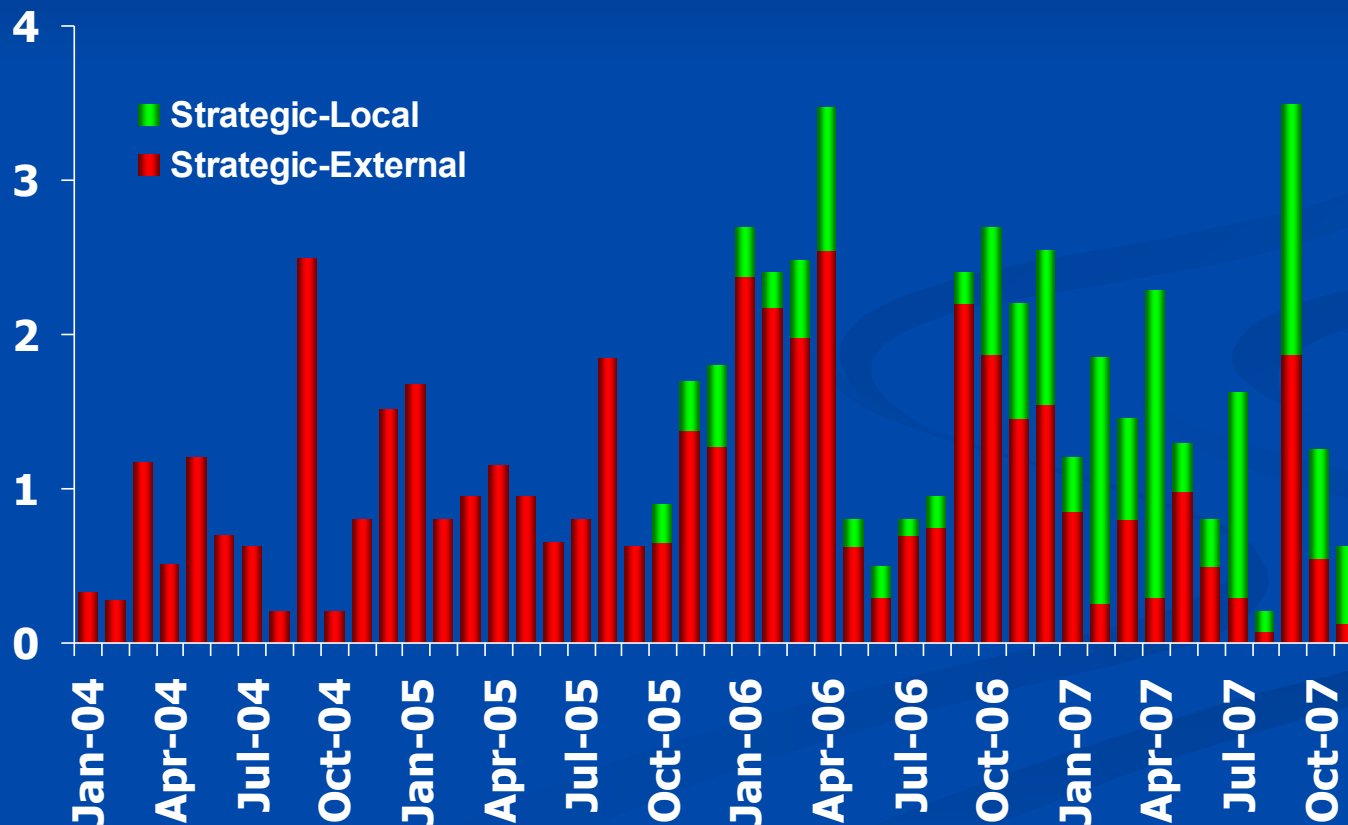
## Bank Flows to Emerging Markets



# Strategic MM Investors Increased Exposure to EM Local Bond Markets

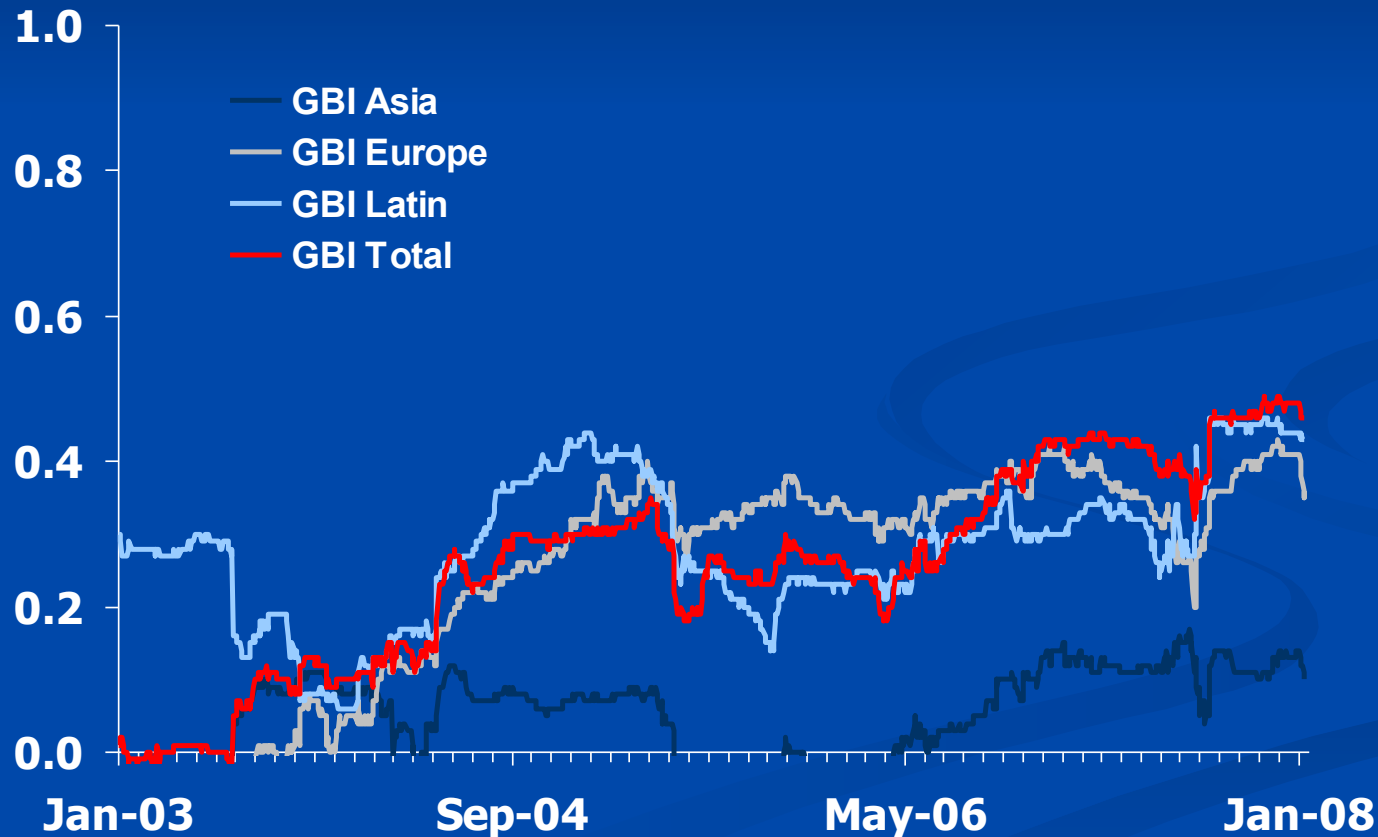
... as higher levels of dedicated EM funds are being invested in local markets.

**EM Strategic Flows**  
(In billions of U.S. dollars)



But as financial markets become more Integrated, transmissions from mature markets can be amplified

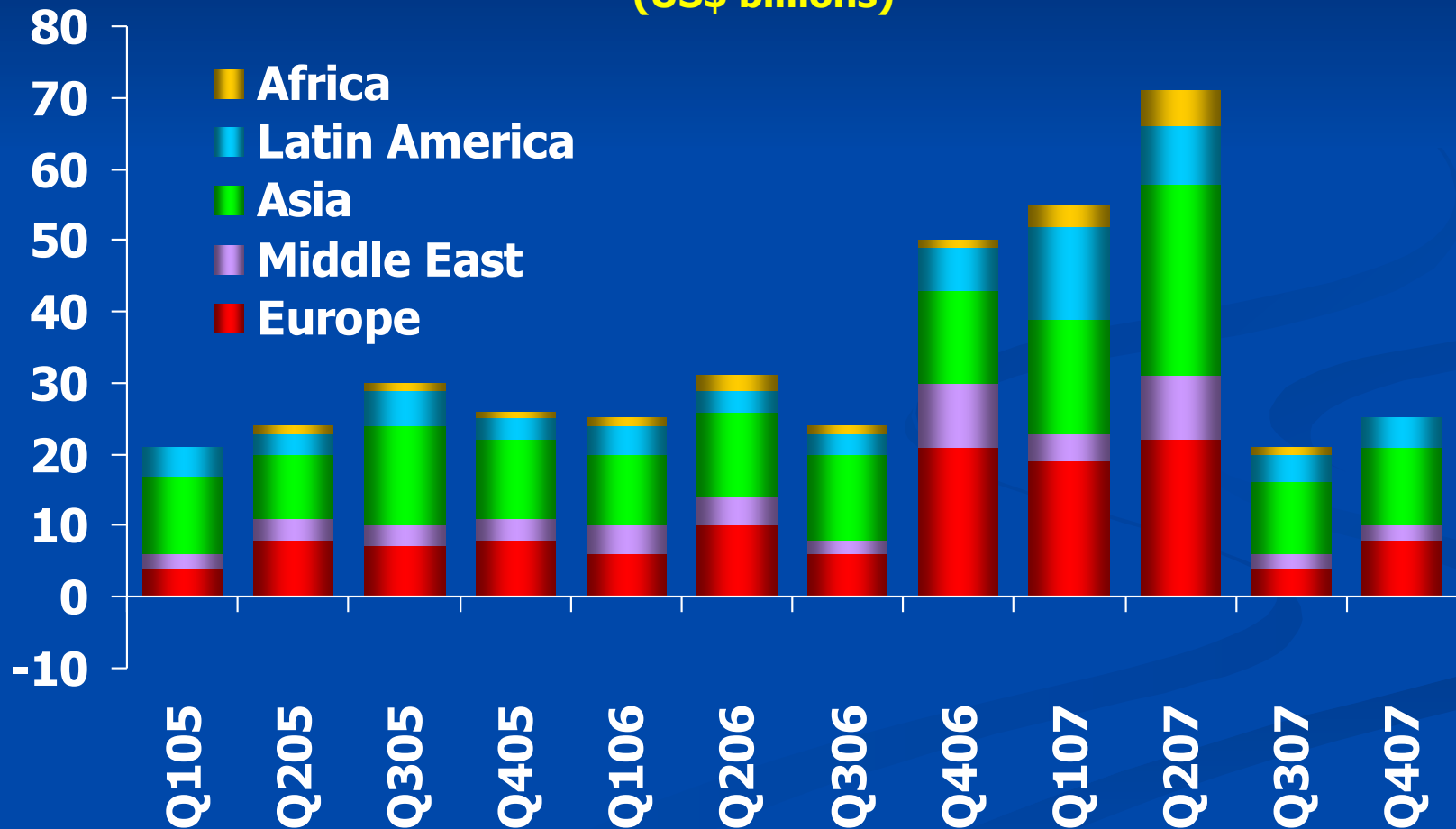
### Correlations of U.S. High Yield and EM Local Market Index Returns





# Private sector bond issuance has tailed off

## Emerging Market Private Sector Gross External Bond Issuance (US\$ billions)



# Credit defaults spreads on some Emerging European issuers indicate vulnerabilities

## Emerging Market 5-Year Credit Default Swaps (basis points)

