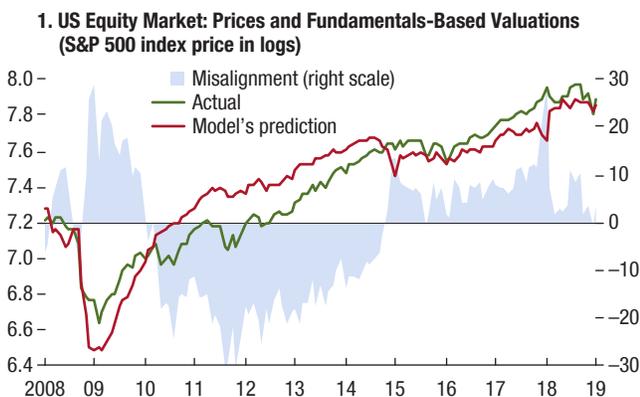
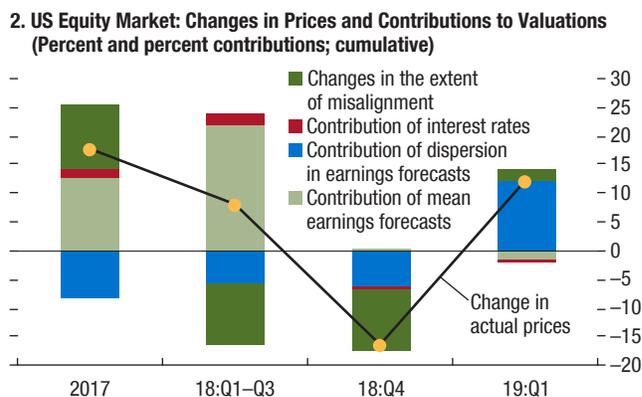


**Figure 1.6. Asset Price Misalignment**

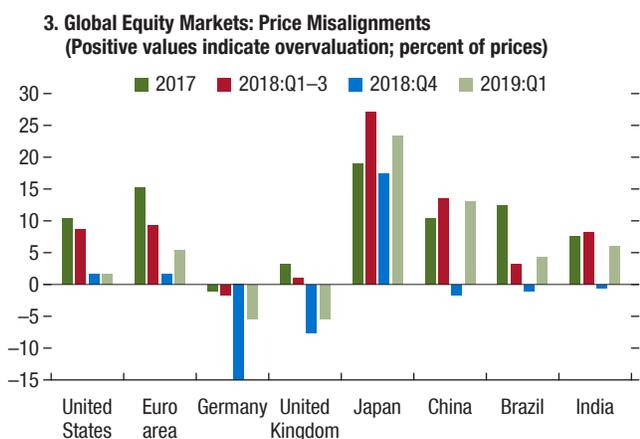
In the United States, the misalignment remained small since late 2018 ...



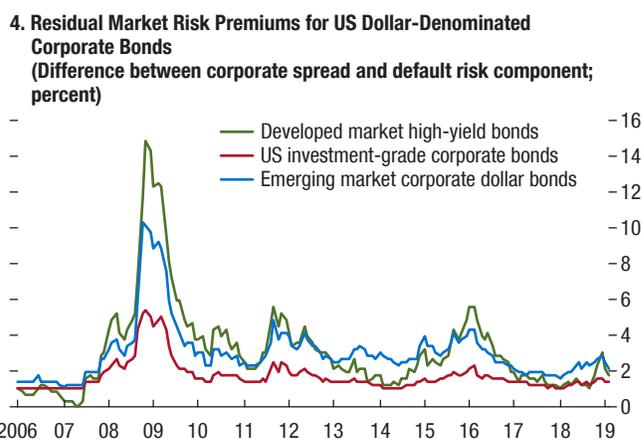
... as the recovery in equity prices has been accompanied by a reduction in earnings uncertainty.



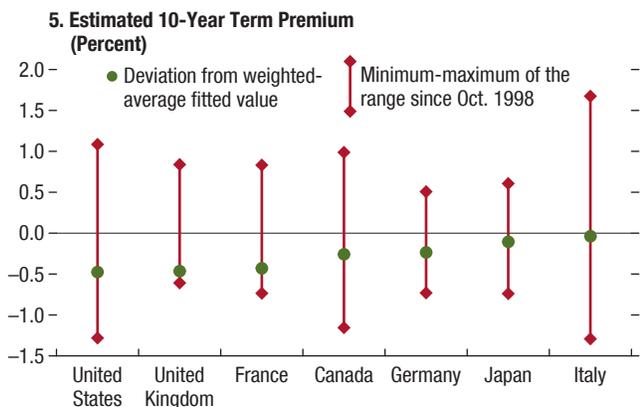
Equity valuations in most major markets seem close to fair values.



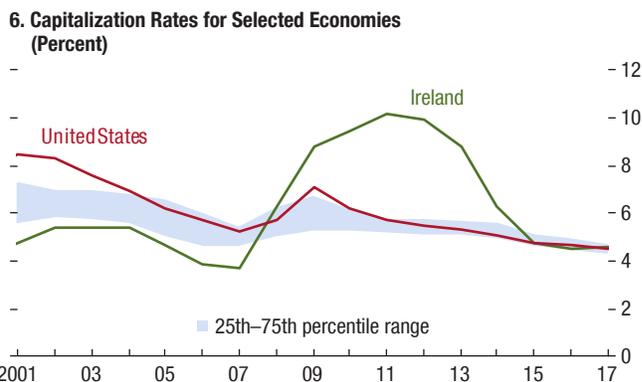
Credit risk premiums have widened, on net, since October 2018, but remain low by historical comparison.



Term premiums are broadly in line with values implied by fundamentals.



Capitalization rates in most commercial real estate markets reached all-time lows, with some signs of overvaluation.



Sources: Bloomberg Finance L.P.; IPD MSCI; JPMorgan Chase & Co.; Moody's; S&P Leveraged Commentary and Data; Thompson Reuters Datastream; Thompson Reuters I/B/E/S; and IMF staff calculations.

Note: Panels 1–3 show the results from an equity valuation model based on average expected earnings, dispersion in earnings expectations, and interest rates. Panel 4 shows the estimated risk premium, defined as the difference between the observed monthly bond spread and the estimated default risk compensation, based on default probabilities by rating. Panel 5 shows 10-year term premium estimates based on the Adrian, Crump, and Moench (2013) model relative to the value implied by fundamentals in a number of models. For explanation of the methodology, please see Box 1.2 in the April 2018 *Global Financial Stability Report*. In panel 6, the capitalization rate is the ratio of the asset's net operating income to its market value. Selected economies include Australia, Canada, Denmark, France, Germany, Ireland, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.