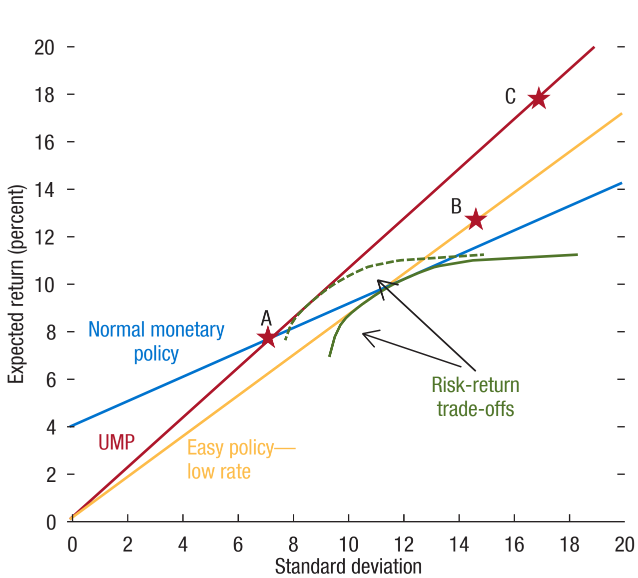
Figure 1.10. Financial Risk Taking and Volatility

Unconventional policies shift the normal risk-return trade-off of monetary policy.

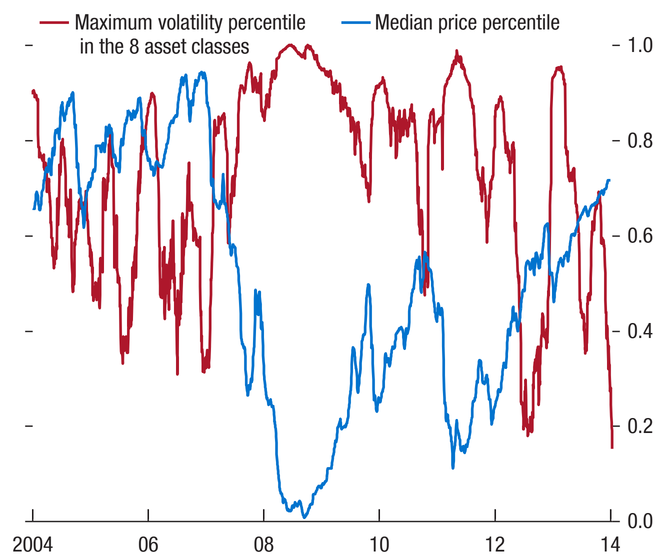
1. Risk-Return Trade-offs under Different Monetary Policies



Sources: Bloomberg L.P.; and IMF staff calculations.
Note: A decline in the policy rate shifts the efficient frontier (from blue to orange) and moves the optimal portfolio from A to B. A decline in volatility with UMP shifts the efficient frontier again (from orange to red) and the optimal portfolio moves from B to C. UMP = unconventional monetary policy.

Low volatility and high asset prices are highly synchronized.

2. Volatility and Asset Price Percentiles



Sources: Bloomberg L.P.; and IMF staff calculations.
Note: The eight asset classes are advanced economy equities; emerging market equities; advanced economy bonds; emerging market bonds; corporate credit; advanced economy foreign exchange rates; emerging market foreign exchange rates; and commodities.