


# Market Risks and Global Economy

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The entire global  
financial system

Excel



Excel 97-2003  
files still working

# What makes a global financial crisis

(fear of) massive mispricing

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lack of intermediary capital

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network contagion

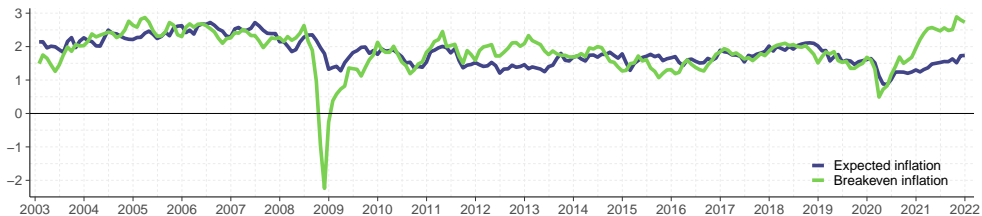
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# Inflation risk is (probably) priced

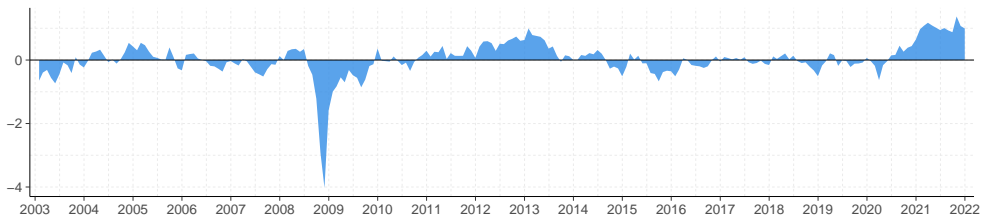
## Breakeven and expected inflation, %

5-year horizon, St. Louis and Cleveland Fed estimates



## Inflation risk premium, %

Difference between breakeven and expected inflation



# Other candidates for massive mispricing?

- ▶ Equity

Probably, but mostly harmless for intermediaries

- ▶ High-yield bonds

Very likely with all the 'searching for yield', but still a niche asset class

- ▶ **ETFs with illiquid underlying**

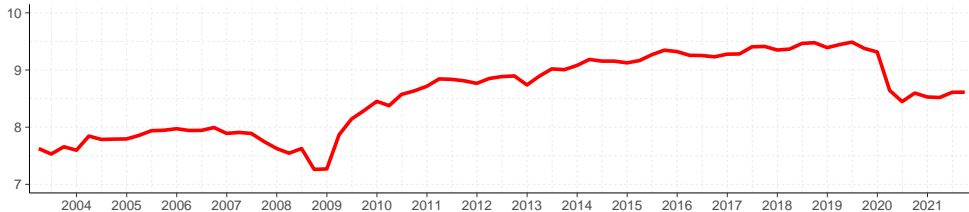
Survived Mar 2020 but AUM keep growing fast

- ▶ ...

# Interbank counterparty risk may seem low but there is a reason

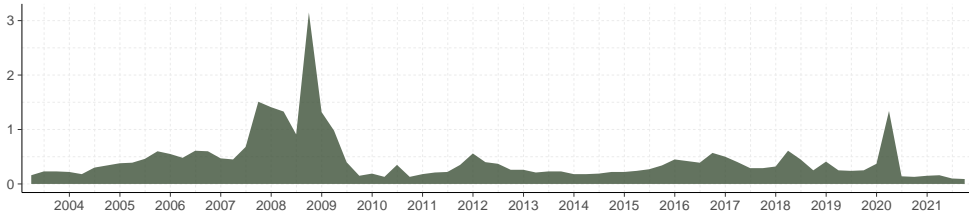
## Leverage ratio, %

*FDIC-insured commercial banks and saving institutions: tier 1 capital divided by total assets*



## TED Spread, %

*3-month LIBOR-UST yield spread*



## ▶ Central-bank-induced mispricing?

- Intermediaries are capital-constrained → liquidity risk did not return to 2019 levels
- Supply constraints where central banks purchased a lot → harder to short

## ▶ Excessive risk in dark OTC areas

Archegos' return swaps drowned at least one international prime brokerage

# Connectedness/contagion: an elephant in the room

## Foreign holdings of onshore Chinese stocks and bonds

*As reported by the PBOC, in trln RMB*

