

# Selected Developments In Global Financial Markets

Carmen M. Reinhart, *Harvard University*

*Federal Reserve Bank of New York*

*Economic Advisory Panel Meeting*

April 17, 2020

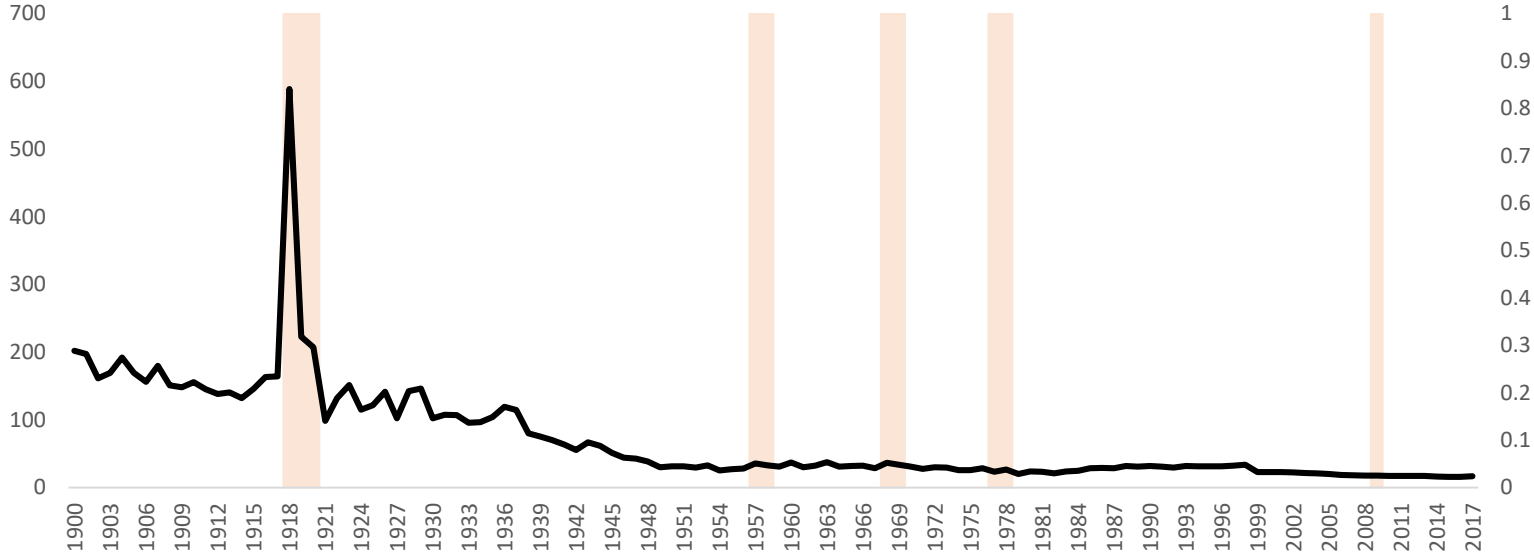
## Focus of my remarks

How has the COVID-19 shock affected global financial markets? Is this time different?

What are the risks and vulnerabilities in developing and emerging markets and what are some of the risks for the economic outlook to the US economy?

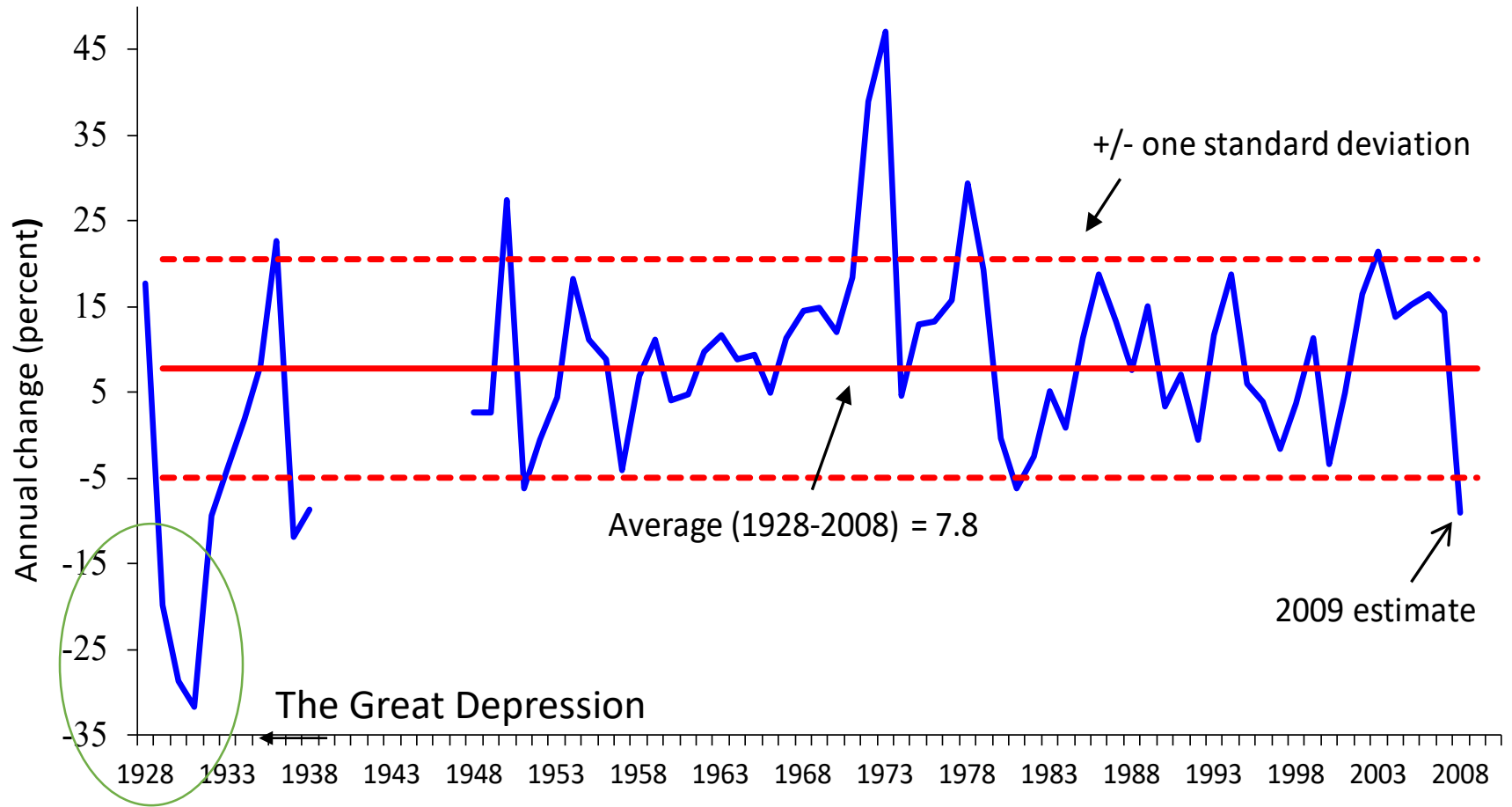
On the economic effects of pandemics, comparisons to the Spanish Flu of 1918-1920 are not particularly helpful. WWI was unfolding and US real GDP grew 9% and business failures declined in 1918, the year when pandemic deaths peaked.

Death rate in the US from influenza and pneumonia: 1900-2017  
(number of deaths per 100,000)



Note: Shaded areas denote pandemics.

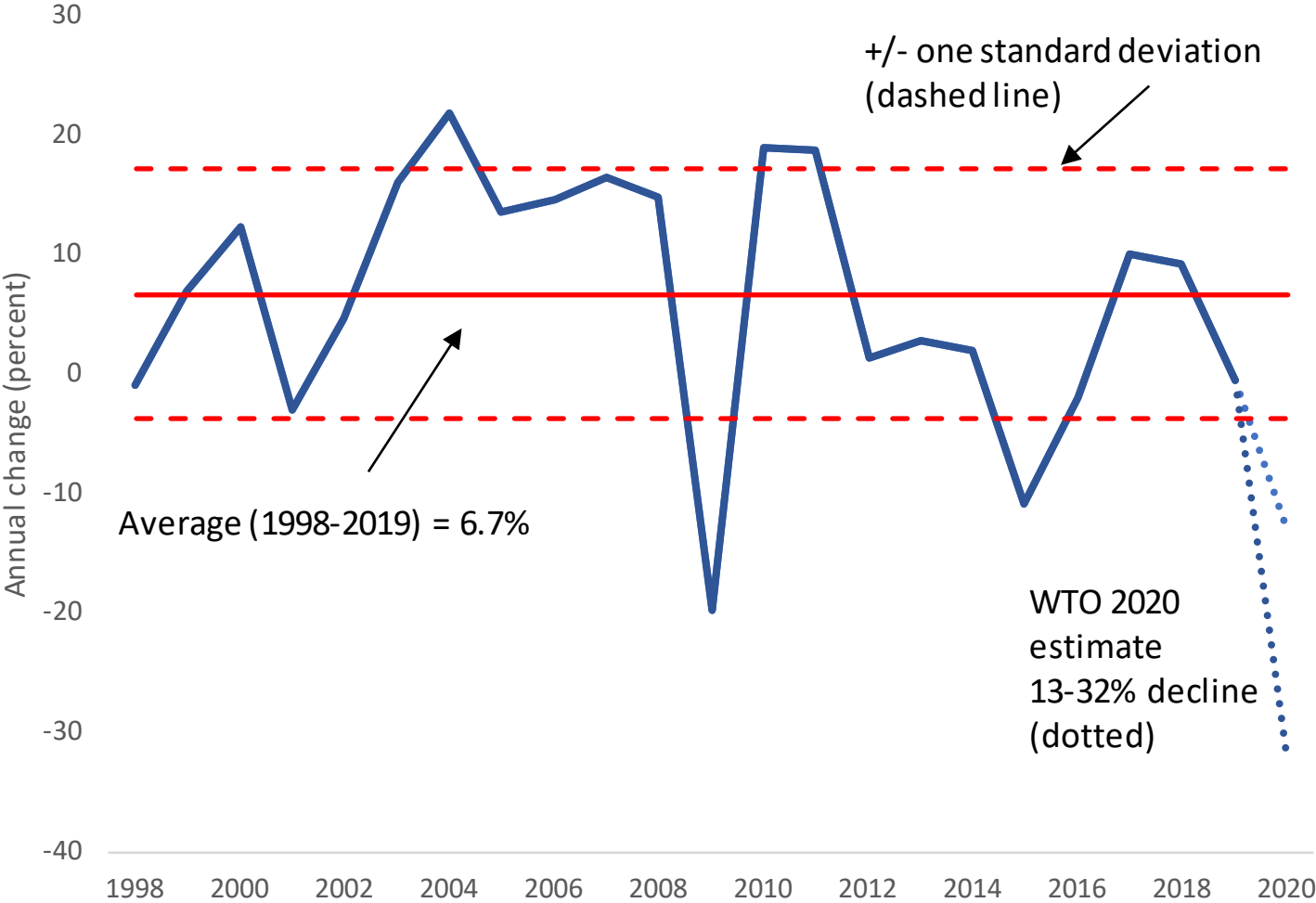
# Global annual export growth 1928-2009



Source: Reinhart and Rogoff (2009).

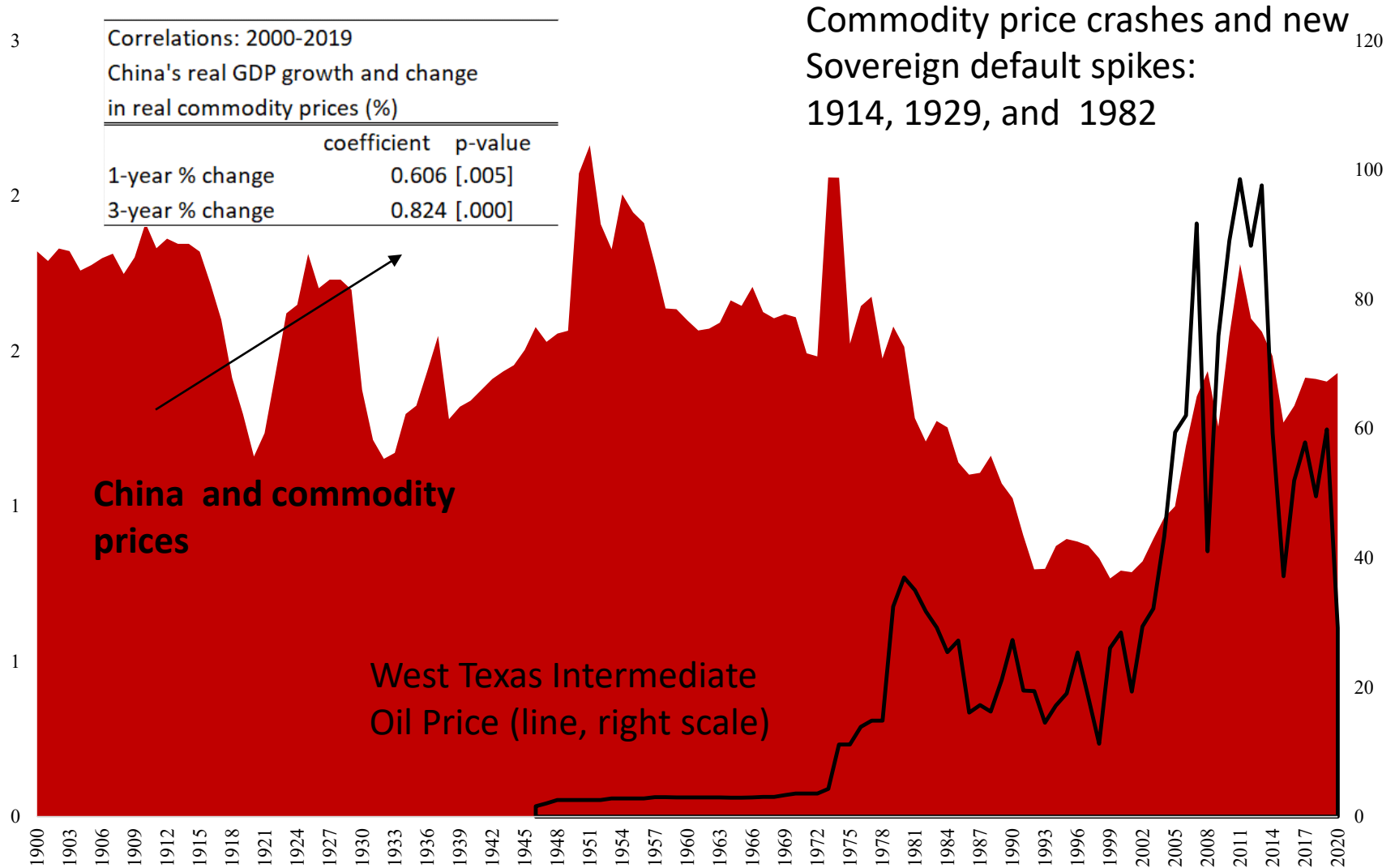
# World trade (exports + imports), 1998-2020

(billions of US dollars, annual percent change)



Sources: IMF WEO, WTO, and author's calculations

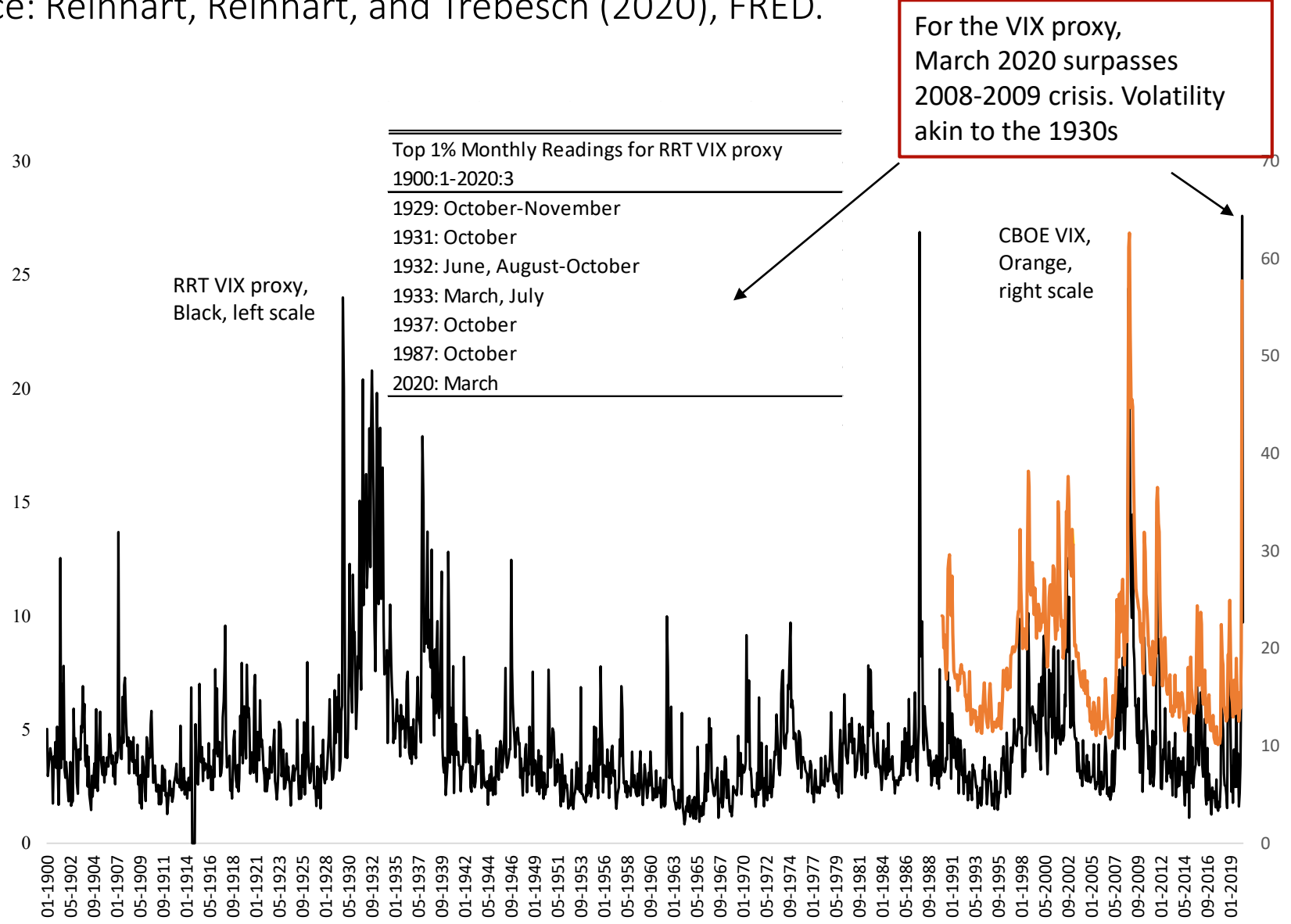
# Oil and Non-oil real commodity prices: 1900-March 2020



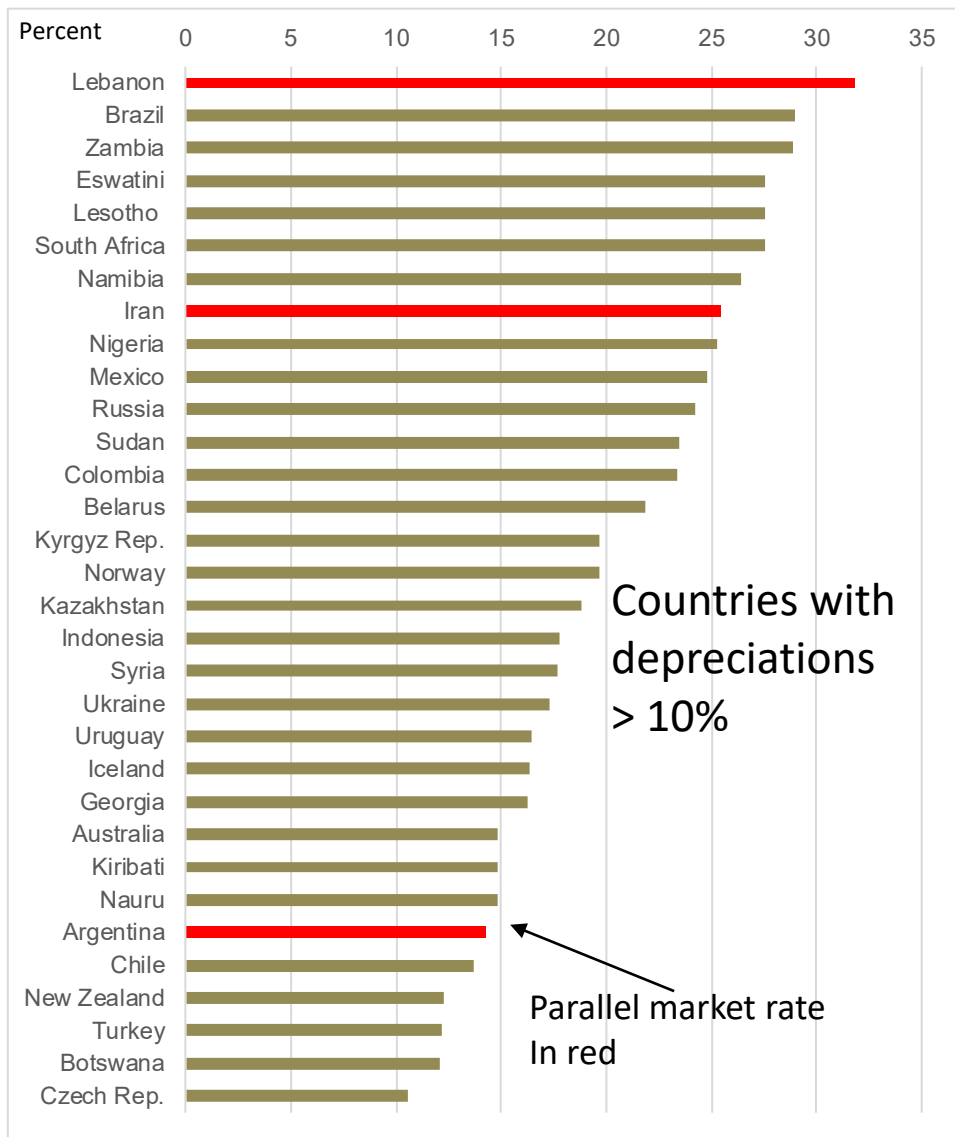
Sources: Reinhart, Reinhart, Trebesch (2016), IMF WEO, Fred.

# CBOE VIX, 1990:1-2020:3 and RRT VIX Proxy, 1990:1-2020:3

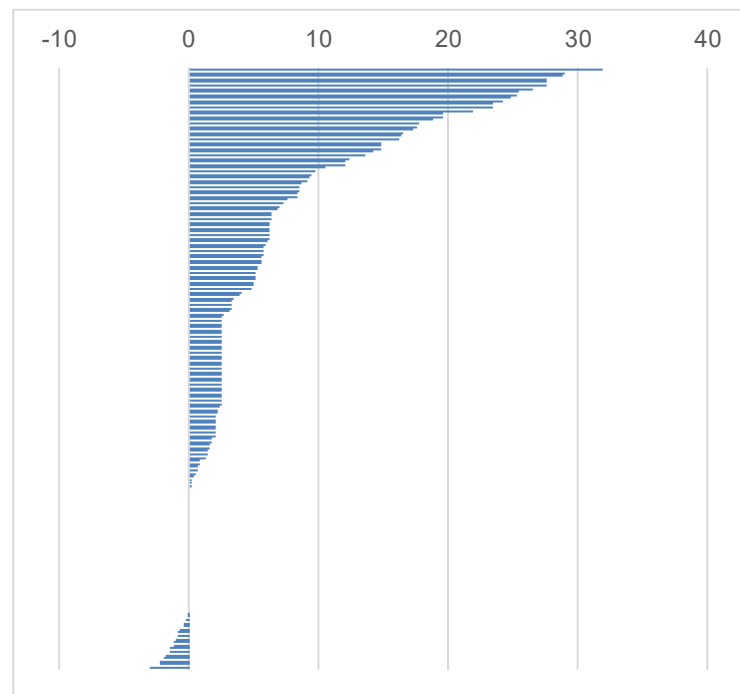
Source: Reinhart, Reinhart, and Trebesch (2020), FRED.



# Exchange Rate Changes versus the US Dollar December 31, 2019-March 31, 2020, (in percent)

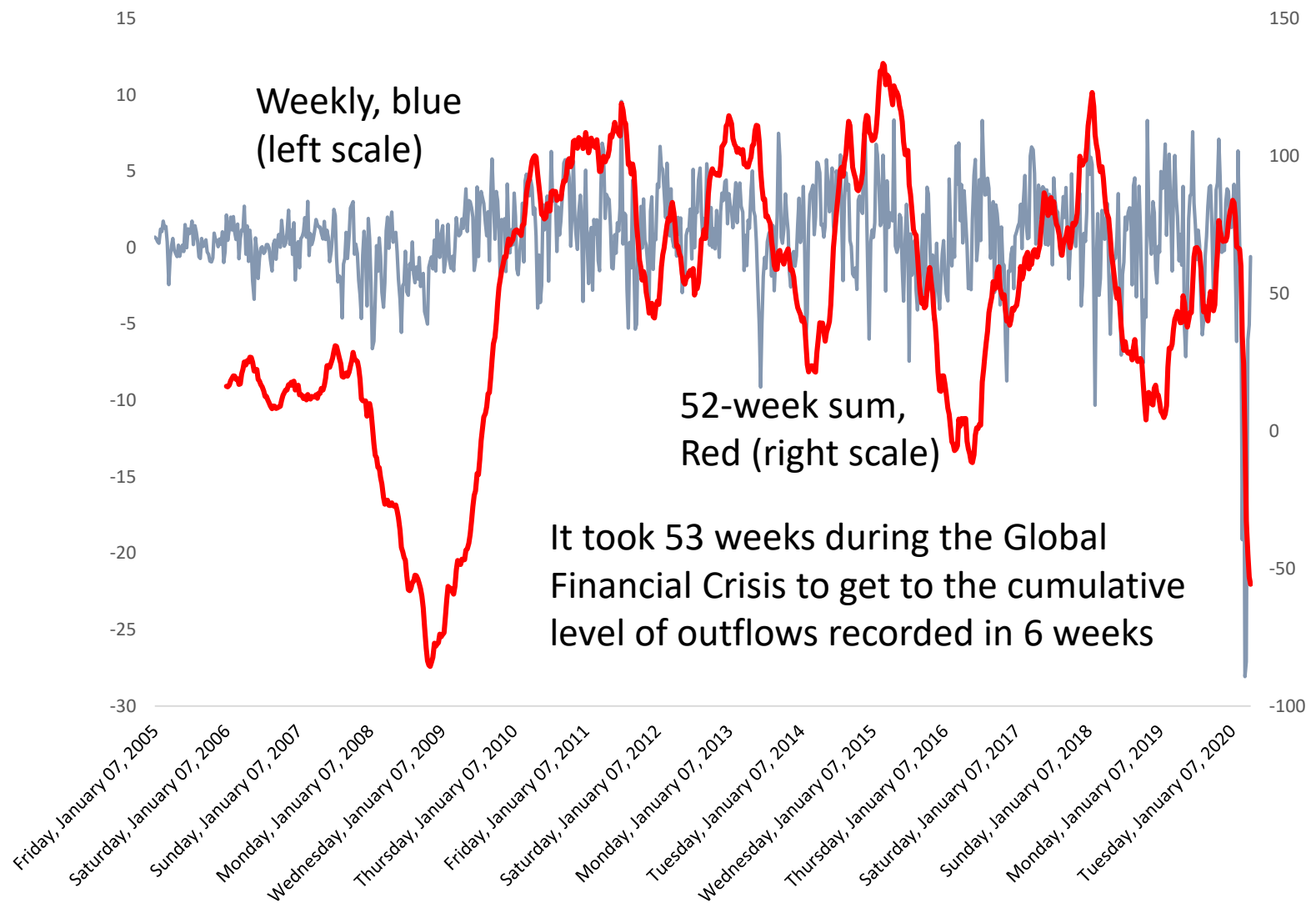


Snapshot of changes for 184 countries reporting to IMF

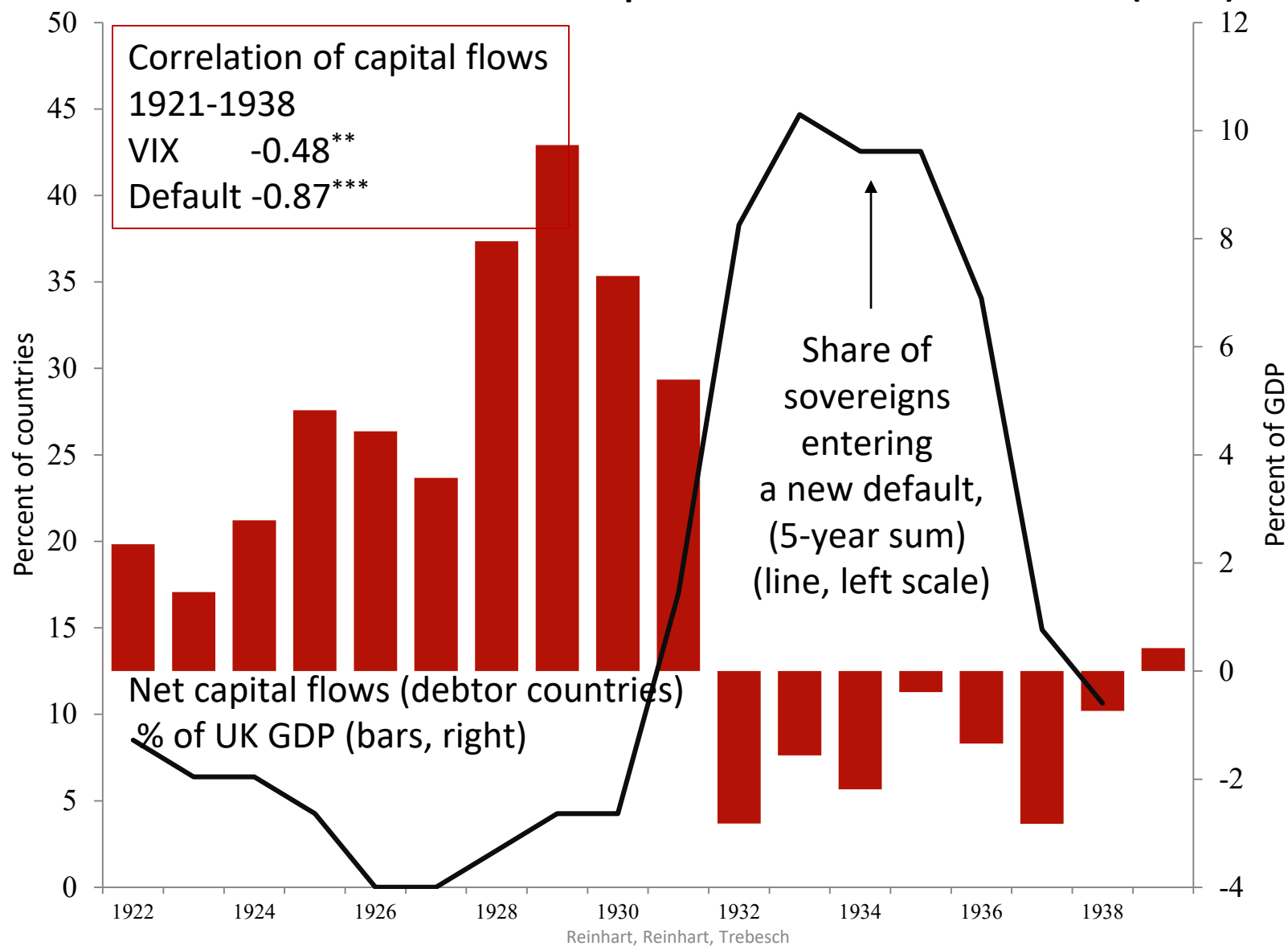




# Weekly Net Non-Resident Purchases of EM Stocks and Bonds (\$ billion) (Excludes Turkey and Mexico)



# The interwar exemplifies the capital flow-sovereign default nexus as well as the impact of risk aversion (VIX)



While I have emphasized the credit risks of developing and EM sovereigns, for AEs these risks are far higher now than in the GFC, most obviously in periphery Europe.

Yellow shading indicates downgrade(s) since 2008

Italy's GDP is more than twice as large as Greece, Ireland, and Portugal combined...

|                                    | Credit Rating |         |     |       |         |      |
|------------------------------------|---------------|---------|-----|-------|---------|------|
|                                    | 2008          |         |     | 2020  |         |      |
|                                    | Fitch         | Moody's | S&P | Fitch | Moody's | S&P  |
| <i>Panel A: Advanced Economies</i> |               |         |     |       |         |      |
| Australia                          | AA+           | Aaa     | AAA | AAA   | Aaa     | AAA  |
| Austria                            | AAA           | Aaa     | AAA | AA+   | Aa1     | AA+  |
| Canada                             | AAA           | Aaa     | AAA | AAA   | Aaa     | AAA  |
| Denmark                            | AAA           | Aaa     | AAA | AAA   | Aaa     | AAA  |
| Finland                            | AAA           | Aaa     | AAA | AA+   | Aa1     | AA+  |
| France                             | AAA           | Aaa     | AAA | AA    | Aa2     | AA   |
| Germany                            | AAA           | Aaa     |     | AAA   | Aaa     | AAA  |
| Greece                             | A             | A1      | A   | BB*   | B1*     | BB-* |
| Iceland (2007)                     | AA-           | Aaa     | A+  | A     | A2      | A    |
| Ireland                            | AAA           | Aaa     | AAA | A+    | A2      | AA-  |
| Italy                              | AA-           | Aa2     | A+  | BBB   | Baa3    | BBB  |
| Japan                              | AA            | Aaa     | AA  | A     | A1      | A+   |
| Korea                              | A+            | A2      | A   | AA-   | Aa2     | AA   |
| New Zealand                        | AA+           | Aaa     | AA+ | AA    | Aaa     | AA   |
| Norway                             | AAA           | Aaa     | AAA | AAA   | Aaa     | AAA  |
| Portugal                           | AA            | Aa2     | AA- | BBB   | Baa3    | BBB  |
| Spain                              | AAA           | Aaa     | AAA | A-    | Baa1    | A    |
| Sweden                             | AAA           | Aaa     | AAA | AAA   | Aaa     | AAA  |
| United Kingdom                     | AAA           | Aaa     | AAA | AA-   | Aa2     | AA   |
| United States                      | AAA           | Aaa     | AAA | AAA   | Aaa     | AA+  |