

# **Term Premia and Credit Risk in Emerging Markets: The Role of U.S. Monetary Policy**

---

Pavel Solís

Johns Hopkins University

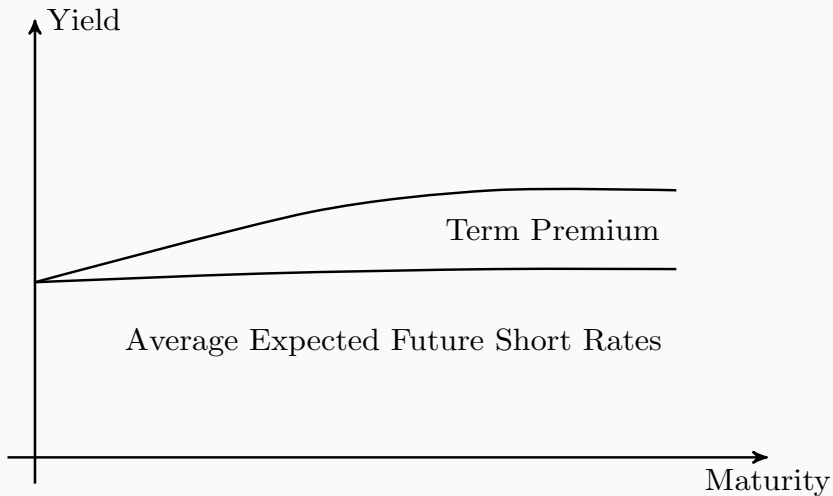
# U.S. Monetary Policy Spillovers

Asset price effects of U.S. monetary policy abroad

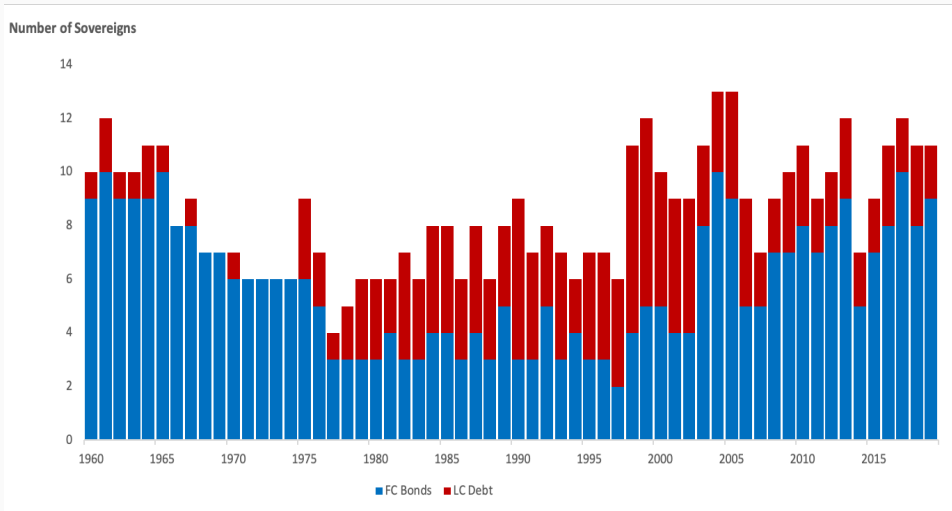
- Stocks
- Exchange rates
- Bonds
  - Foreign currency
  - Local currency: 90% of EM sovereign debt in 2018

**Research Question:** How does U.S. monetary policy transmit to EM yields?

# Traditional Yield Curve Decomposition

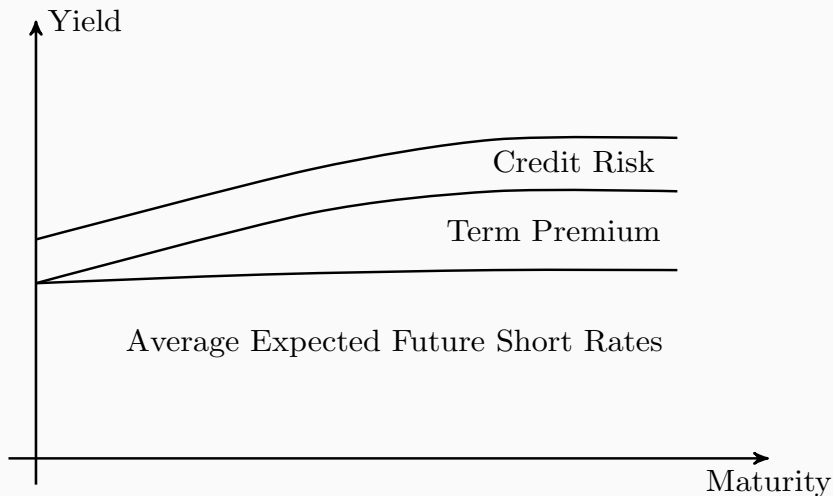


# Do Sovereigns Default on Local Currency Debt?

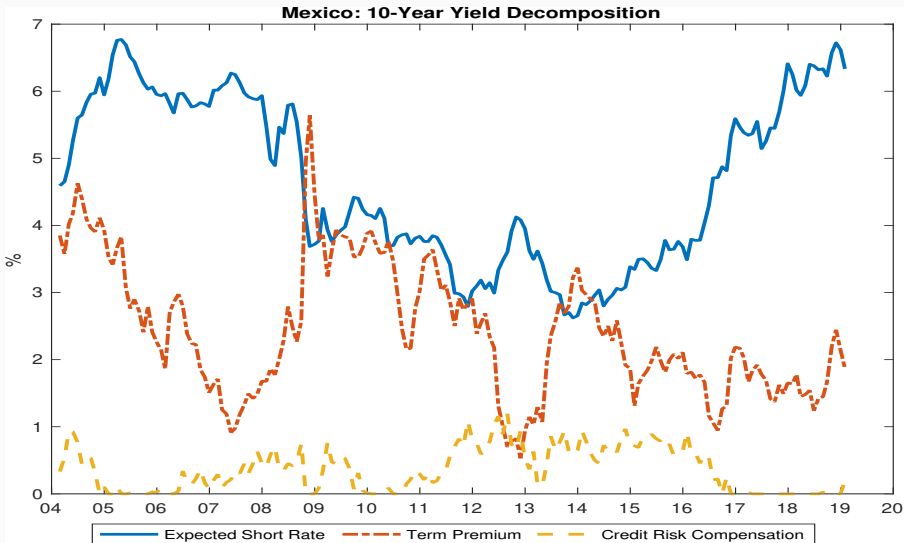


Source: BoC-BoE Sovereign Default Database.

# Proposed EM Yield Curve Decomposition

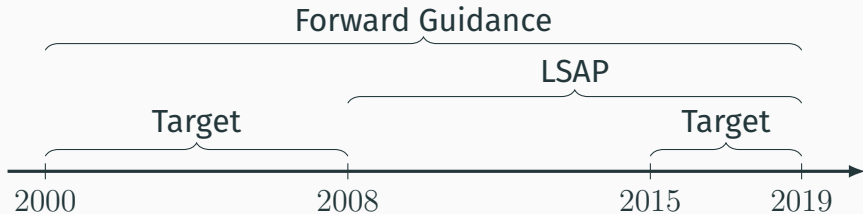


# EM Yield Curve Decomposition



# U.S. Monetary Policy Surprises

Asset price changes in 2-hour windows around FOMC meetings



# U.S. Monetary Policy Spillovers

1. EM yields' response is **economically significant**, yet **delayed**
  - Response in EM lasts longer than in U.S.
2. **All three** components react to U.S. monetary policy
  - EM central banks expected to follow Fed's monetary stance
  - Response of EM term premia similar to AE term premia
  - Fiscal implications in EM of U.S. monetary policy
3. Unconventional policies **limit** EM monetary autonomy along curve
  - Global financial cycle more relevant at the long end