

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

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Pavel Solís

Johns Hopkins University

# U.S. Monetary Policy Spillovers

1. EM yields' response is **economically significant**, yet **delayed**
  - Response in EM slower than in U.S.
2. **All three** components react to U.S. monetary policy
  - EM central banks expected to follow Fed's monetary stance
  - EM term premia response 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

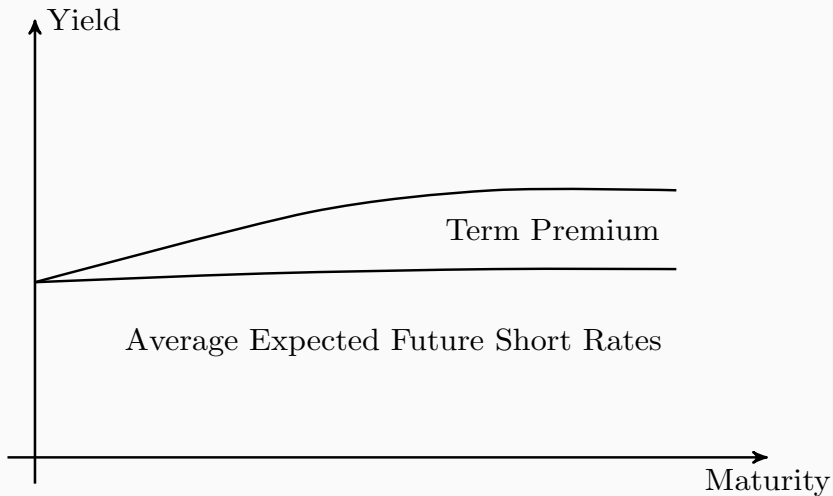
# U.S. Monetary Policy Spillovers

Asset price effects of U.S. monetary policy abroad

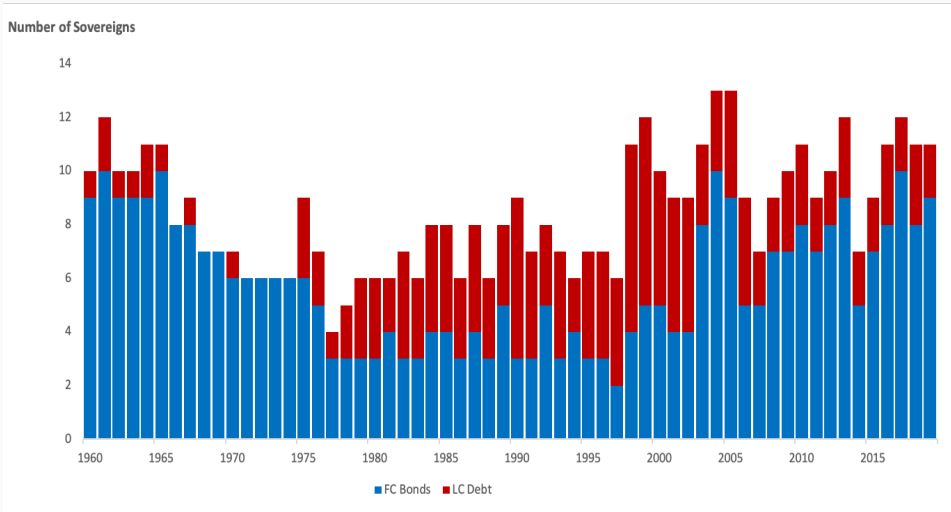
- Stocks
- Exchange rates
- Bonds
  - Foreign currency (FC)
  - Local currency (LC): 90% of EM sovereign debt in 2018

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

# Traditional Yield Curve Decomposition



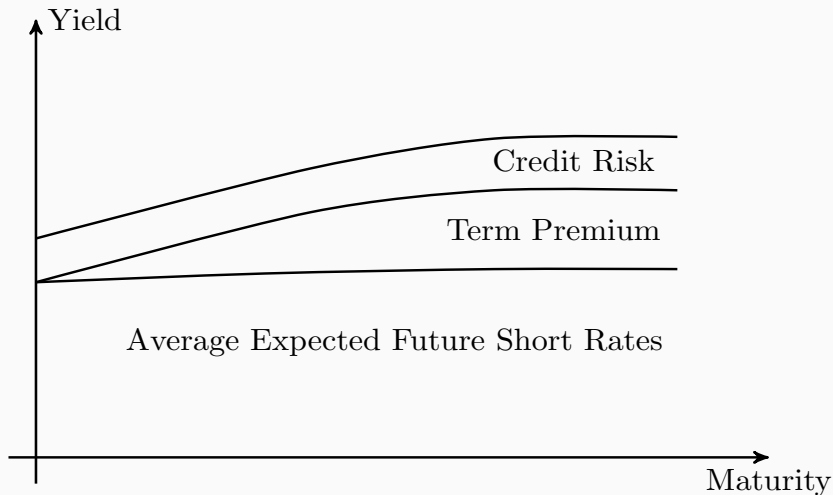
# Do Sovereigns Default on Local Currency Debt?



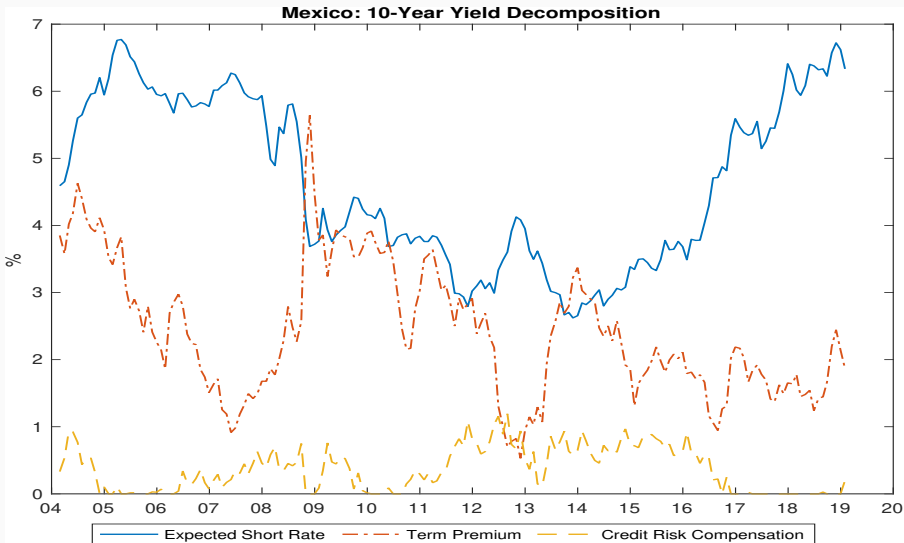
Source: BoC-BoE Sovereign Default Database.

► Credit Ratings

# Proposed EM Yield Curve Decomposition



# EM Yield Curve Decomposition



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