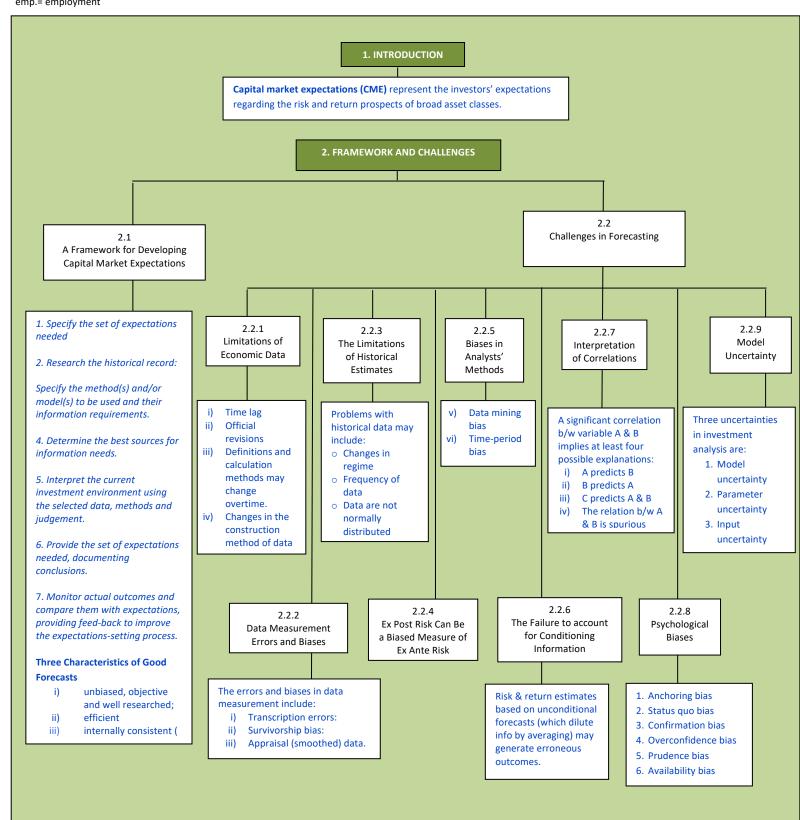
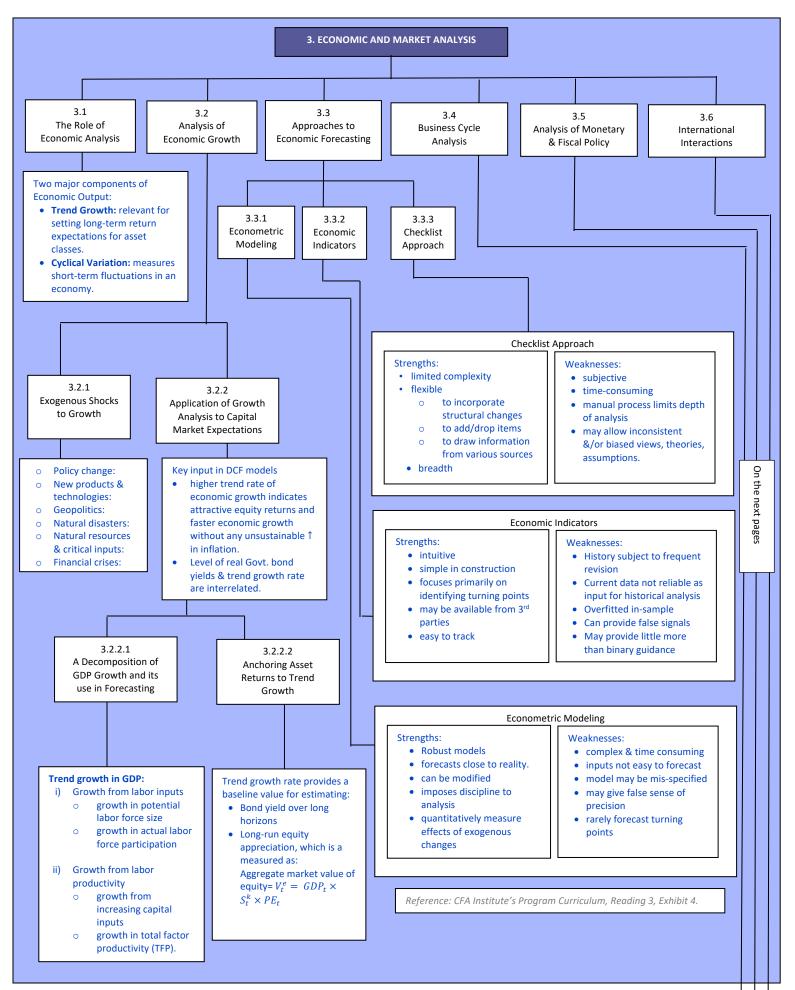
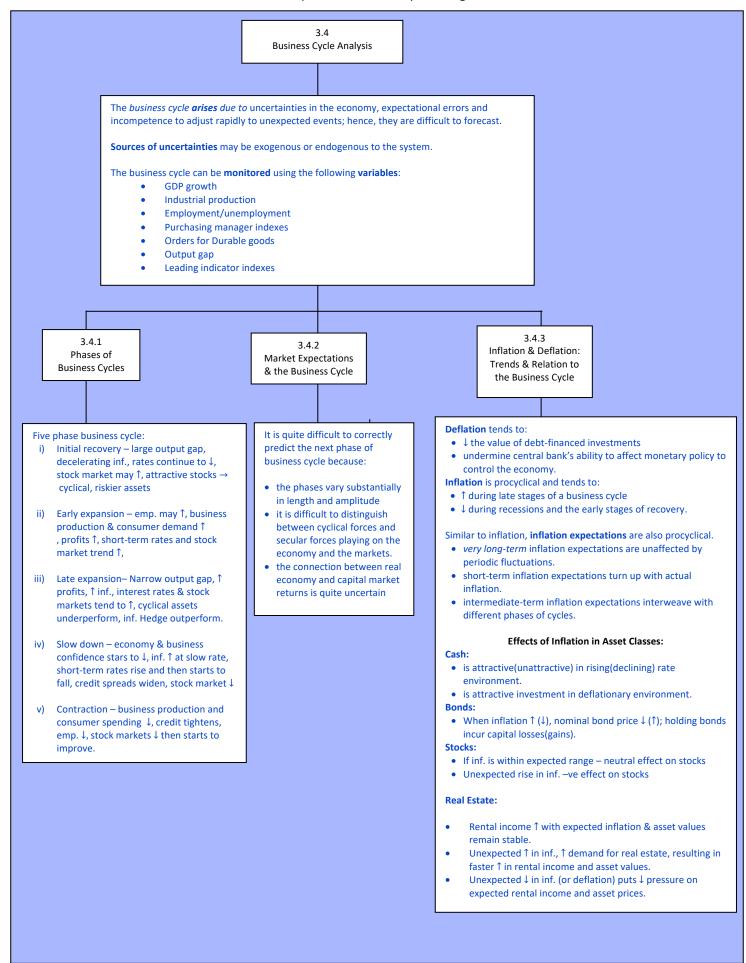


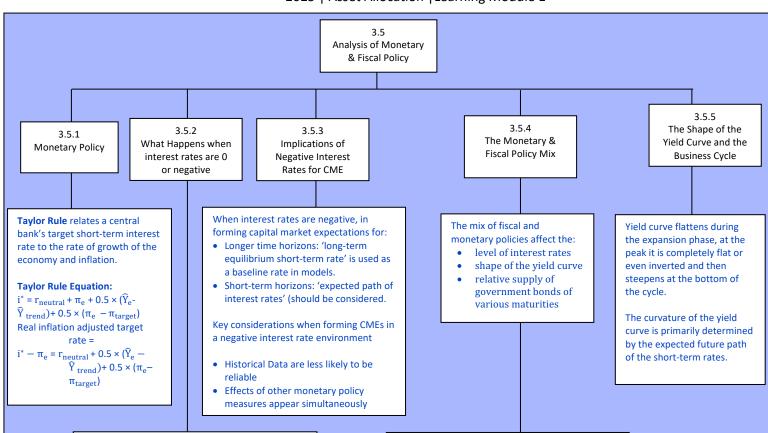
## Capital Market Expectations: Part 1

Inf = inflation emp.= employment









Individuals' preference to hold currency (when facing negative interest rates) would lower bank's reserves and deposits causing credit contraction.

The contraction of credit would further put upward pressure on interest rates leading to slowdown in economic growth which would in turn require additional stimulative policies.

**QE (quantitative easing)** - Central banks purchase high-quality government securities at a large scale. This action boost banks' excess reserves and lower sovereign bond yields

Effect of Persistent Policy Mix on the Average Level of Rates							
Fiscal Policy		Monetary Policy		Nominal Rates			
Loose ⇒ ↑ Real Rates	+	Loose⇒ ↑Expected Inflation	=	1			
Tight ⇒ ↓ Real Rates	+	Tight ⇒ ↓ Expected Inflation	=	<b>↓</b>			
Loose ⇒ ↑ Real Rates	+	Tight ⇒ ↓ Expected Inflation	= Mid				
Tight ⇒ ↓ Real Rates	+	Loose⇒ ↑ Expected Inflation	=	Mid			

	Initial Recovery	Early Expansion	Late Expansion	Slowdown	Contraction
Monetary Policy & Automatic Stabilizers	stimulative stance     moving towards     tightening	dropping stimulus	becoming restrictive	• tight • tax revenue may ↑	increasingly more stimulative
Money Market Rates	low/ bottoming     expected to rise     over progressively     shorter horizons	rise and speed up	above average &     rising     expectations may be     moderated by     eventual peak /     decline	approaching peak	declining
Bond Yields & the Yield Curve	<ul> <li>long rates bottoming</li> <li>shortest rates start to ↑.</li> <li>Curve is steep</li> </ul>	yields ↑     stable at longer maturities     yield curve's 1st half     ⇒steepening, last half     ⇒flattening	yields rise at slow pace     curve flattening from longest maturities inward	yields peak, then may decline sharply     curve flat to inverted	vields declining curve steepening. steepest at the tip of initial recovery phase

