

The stimulus schemes will stress the financial system

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Significance

While the Federal Reserve (Fed) rejects negative interest rates, and instead considers yield-curve control, even the prospect of negative US rates is accentuating distortions in asset prices and fuelling concerns about global financial stability after the pandemic.

Impacts

The Fed's decision to start buying corporate debt has led to a surge in bond issuance; many firms may struggle as the stimulus is unwound.

Beyond Japan, the euro-area is nearest deflation; the ECB chief economist warns that demand will be low for some time.

The VIX Index, a measure of upcoming US equities volatility, remains above its long-term average, but will be prone to spikes.

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