

Global Risk Watch Newsletter

The World Economy is Frightened by The Policy Brake Which Might Further Harden Its Uphill Climbing, etc.

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<<index>>

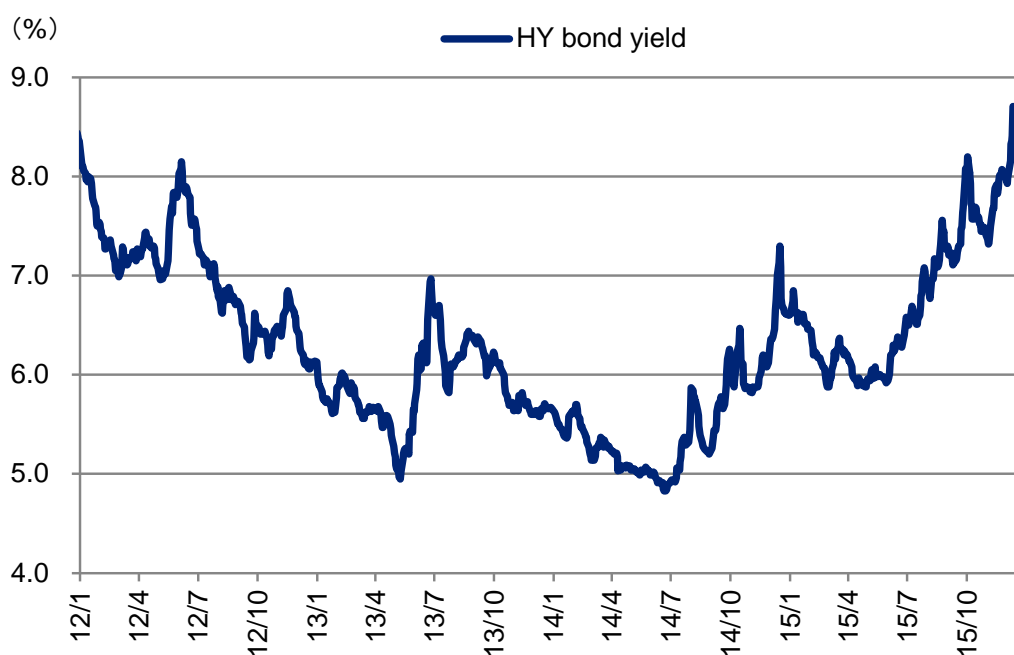
- [1. # The World Economy is Frightened by The Policy Brake Which Might Further Harden Its Uphill Climbing
\(Tsuyoshi Oyama\)](#)
 - [2. # Loosening Banking Regulations, and Strengthening of Non-bank Regulations? \(Koichi Iwai\)](#)
 - 3. # Are Rise of the US high-yield bond yields, an Indicative Warning for the Stock Market? (Yasuhiro Sobue)
 - [4. Seminars](#)
- =====

3.Highlight of Indicator for this Month

Are Rise of the US high-yield bond yields, an Indicative Warning for the Stock Market? (Yasuhiro Sobue, Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

US high-yield bond yields are rising (price is falling), and the main reasons for rising yields are that a US rate hike is imminent, and crude oil prices plummeted to a record low-level in August 2015. Furthermore, the announcement of the suspension of settlement and redemption request of the US high-yield bonds funds on December 11th also spurred further turmoil in the market. High yield bond issuers have the highest composition ratio in the energy sector, while most of them are petroleum facilities and drilling related companies, thereby easily influenced by the impact of crude oil prices. Yields for high-yield bonds along with the VIX Index are considered to be early warning

indicators for risk asset prices of stocks, and are paid attention to by the investors as the “canary in the coal mine” of the stock market. Since the uncertainties toward the US monetary policy have declined, the stock markets do not seem to face similar price adjustments in the high-yield bonds market (as of December 11th). However, given the indicative signs from high-yield bond yields, the future trends must be carefully observed.



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