

BOX I.1:

Evolution of global financial conditions

Unlike previous episodes of increase of uncertainty, the events of the last few months have triggered an unusual reaction in the prices of financial assets. On the one hand, in the United States, during the most critical days since the beginning of April—where significant increases in the VIX and sharp falls in the stock market were observed—long-term rates rose, at the same time as the dollar depreciated, defying the historical correlation between these two assets.^{1/} On the other hand, financial conditions for emerging markets have shown an evolution more favorable than would be expected in a typical scenario of global risk aversion.

For some time now, US long-term rates have been behaving differently than usual. Their tendency to rise rather than fall in recent episodes of increased war conflicts ([Box I.1 in December 2024 IPoM](#)) stands out, largely explained by the implications of these conflicts on defense spending, in a context of challenging fiscal conditions.

The main novelty of the current situation is that the increase in the long-term rate has coincided with a sharp depreciation of the dollar, breaking a strong historical correlation (Figure I.18). This could be construed as a scenario of increased risk perception regarding the United States economy, reducing the preferences for all its assets—not only long-duration bonds—, including the stock market. As a matter of fact, although the latter has recovered from the sharp falls of April, when compared to its level at the beginning of the year, it is among the worst performers globally (Figure I.19).

[Reszczyński et al. \(2025\)](#) indicate that the aforementioned higher risk perception could be explained by the apparent lower predictability of the institutional and public policy framework in the United States, added to the deterioration of its historical strategic alliances. The authors quantify at around 30 basis points (bp) the effect of these elements on the increase of the 10-year rate since early 2025 (blue bar in Figure I.20).

One direct consequence of the lower preference for U.S. assets is the tightening of financial conditions relevant to consumption and investment in that economy. [Reszczyński et al. \(2025\)](#) build an indicator of financial conditions that provides a structural reading of their movements. This indicator shows a significant contraction from the second quarter of this year, mainly explained by the greater risk perception and a greater preference for short-term assets (blue and yellow bars in Figure I.21).

Another collateral effect of the greater United States risk is that the rest of the world has become less risky in relative terms, which has tended to favor its asset prices ([Box I.1 in March 2025 IPoM](#)). In Latin America, it is also considered that—with the exception of Mexico—the region has so far not been the main focus of U.S. tariff announcements and is neither directly nor indirectly part of the ongoing military conflicts. In this context, the long-term rate differential with the United States has narrowed by around 30 bp since the beginning of the year. The financial conditions index for Latin America—[Reszczyński et al. \(2025\)](#)—show neutral conditions for the region, in which the perception of lower local risk and somewhat looser monetary policy outlooks offset the risks coming from the United States (Figure I.22).

^{1/} There is extensive theoretical and empirical evidence on the increase in the value of safe haven assets in the face of increased global uncertainty events, including those of heightened trade uncertainty, such as those occurred in 2018-2019. See, for example, [Carlomagno and Albagli \(2022\)](#); [Jiang, Krishnamurthy and Lustig \(2018, 2023\)](#); [Georgiadis, Müller and Schumann \(2024\)](#); [Miranda-Agrippino and Rey \(2022\)](#).

Conclusions

Global financial markets are showing an atypical behavior in the face of the increase in global uncertainty. This has caused a significant deterioration of financial conditions in the United States, which explains part of the downward correction in that economy's growth included in the March IPoM, increased in this one. Moreover, in the face of new episodes of uncertainty, the change in correlations between fixed- and variable-income assets in the US could amplify the negative wealth effects for households and firms, and also amplify the losses of financial intermediaries. This could increase markets volatility, beyond the usual effect of possible new announcements.

From the Latin American perspective, unlike what might have been expected in the face of greater global uncertainty, financial conditions have not deteriorated significantly. Thus, the usual channel through which global uncertainty shocks are transmitted more rapidly to emerging economies has been inactive. This justifies a limited deterioration of the growth outlook in the central scenario of this IPoM. However, given the high volatility of markets and tariff announcements, there is the risk of this channel being activated, which is captured in the sensitivity scenario that determines the lower bound of the MPR corridor.

FIGURE I.18

Differential between US and Eurozone rates, and dollar (*) (euros per dollar)

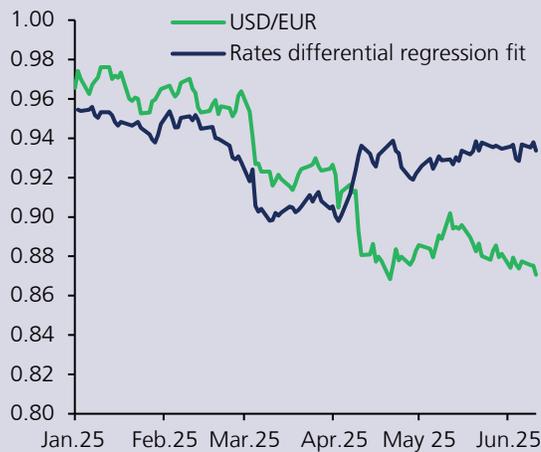


FIGURE I.19

Stock indices (index 100 = 01/12/24)



(*) Estimates obtained based on a linear regression between the US 10-year bond rate differential and the German 10-year bond rate.

Sources: Central Bank of Chile based on data from Bloomberg.

FIGURE I.20

US 10-year rate breakdown (1)
(accumulated since 01.Dec.24, basis points)

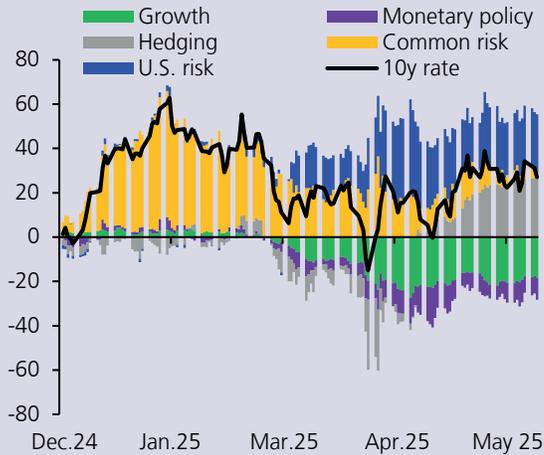
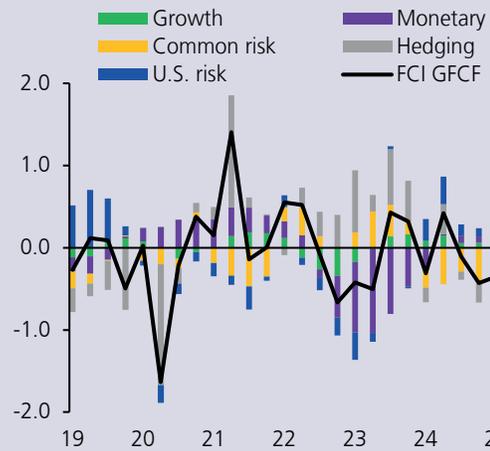


FIGURE I.21

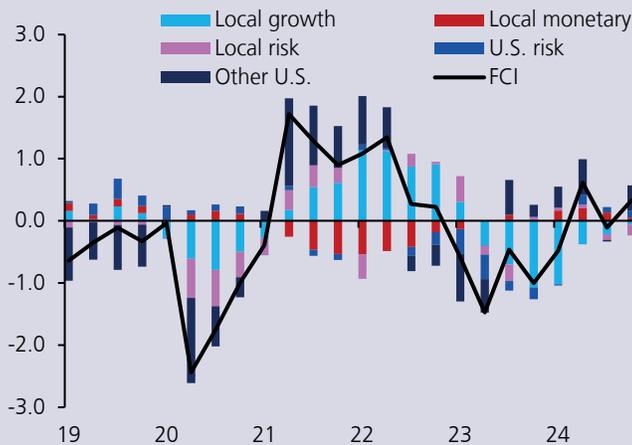
US Financial Conditions Indices - GFCF (2)
(standard deviations, annual change)



(1) Shocks estimated based on SVAR model with sign restrictions. For details, see [Reszczynski et al. \(2025\)](#). (2) Financial conditions index that relates structural shocks to changes in gross fixed capital formation, based on Albagli, Carlomagno, Ledezma y Reszczynski (2025). Out-of-sample estimation assumes effective shocks and zeros to complete Q2 2025. Henceforth, shocks=0. Source: [Reszczynski et al. \(2025\)](#).

FIGURE I.22

Latin America Financial Conditions Indices - GFCF (*)
(standard deviations, annual change)



(*) Financial conditions index that relates structural shocks to changes in gross fixed capital formation, based on Albagli, Carlomagno, Ledezma y Reszczynski (2025). Out-of-sample estimation assumes effective shocks and zeros to complete Q2 2025. Henceforth, shocks=0. Latin America corresponds to the average between Chile, Brazil and Colombia. Source: [Reszczynski et al. \(2025\)](#).