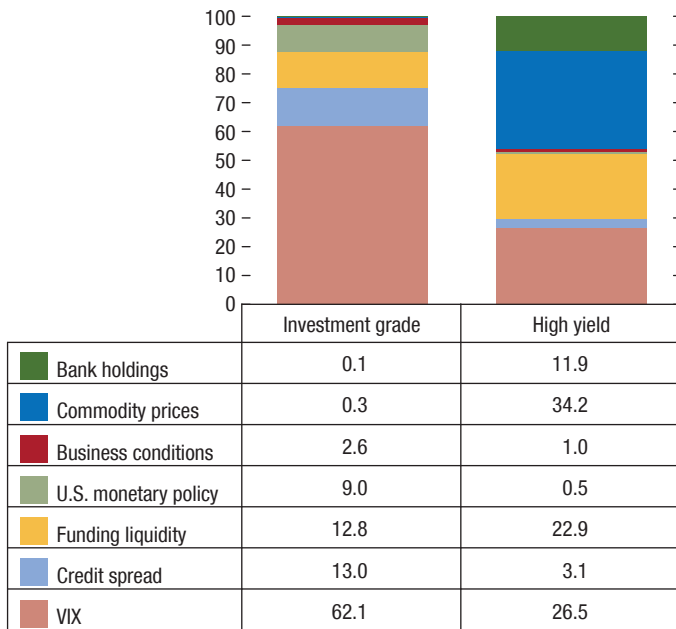


Figure 2.9. Main Drivers of Market Liquidity

Risk appetite has been the main driver of investment-grade U.S. corporate bond market liquidity since 2010, whereas funding liquidity seems more important for high-yield bonds.

Contributions to Market Liquidity of U.S. Corporate Bonds (Percent)



Source: IMF staff estimates.

Note: The figure and table show the unique contribution of each variable (normalized by total unique contributions) in predicting the variance of aggregate market liquidity by type of bond since 2010. R^2 for investment grade = .79 and R^2 for high yield = .42. See Annex 2.2 for details. The decomposition follows the commonality coefficients approach described in Nathans, Oswald, and Nimon (2012). VIX = Chicago Board Options Exchange Market Volatility Index.