

# Highlights

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## Key Trends

- Between 31 December 2019 and 29 February 2020, 2-year and 10-year local currency (LCY) government bond yields declined in major advanced economies, select European markets, and nearly all emerging East Asian markets amid heightened risk aversion due to the coronavirus disease 2019 (COVID-19) outbreak and an uncertain global economic growth outlook.<sup>1</sup>
- Many regional governments and central banks engaged in policy actions to mitigate the negative impact of COVID-19 on economic activities and financial markets. These include fiscal stimulus and monetary tools such as policy rate cuts and market operations.
- During the review period, regional equity markets all declined and credit default swap spreads widened on heightened negative investor sentiment driven by uncertainty related to COVID-19 and the economic outlook. All regional currencies weakened against the United States dollar, except for the Japanese yen, as investors shifted their positions toward safe-haven assets.
- Foreign holdings' shares in the region's LCY government bond markets remained broadly stable in the fourth quarter of 2019. However, as the COVID-19 outbreak spread globally, risk-off sentiment resulted in some market sell-offs in January and February.
- Emerging East Asia's LCY bond market expanded to a size of USD16.0 trillion at the end of December, growing 12.5% year-on-year. Government bonds comprised 61.1% of the region's total LCY bonds outstanding.

## Risks to Financial Stability

- The outbreak of COVID-19 remained the biggest source of uncertainty in the global economy and in financial markets.
- While trade tensions between the People's Republic of China and the United States abated with the signing of the Phase 1 trade deal, uncertainty over trade and globalization remain as long-term structural issues.
- Other downside risks include geopolitical issues associated with tensions in the Middle East that remained heightened.

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<sup>1</sup> Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.