

## **Discussion of:**

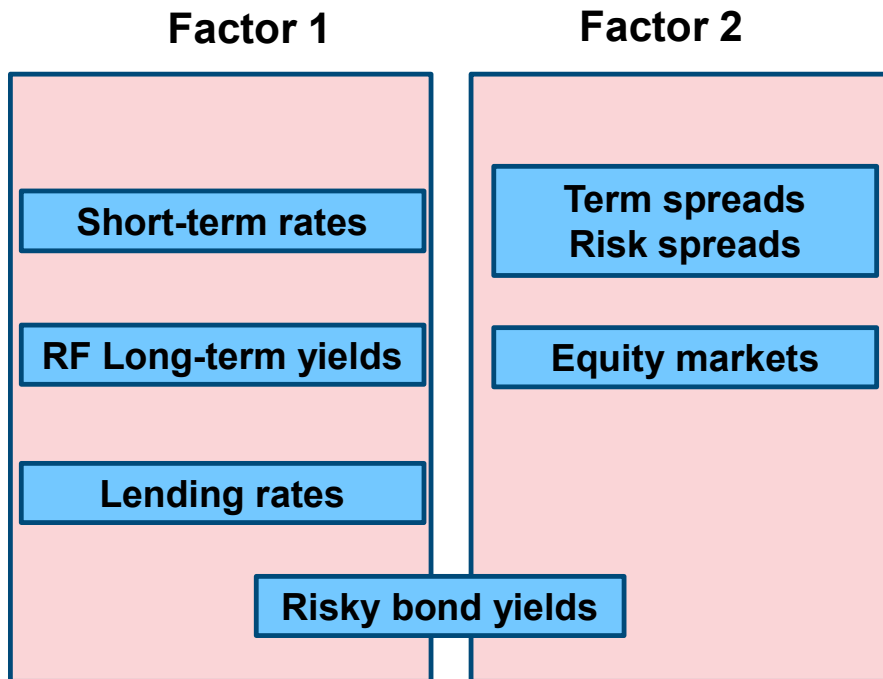
# **Financial conditions and the macroeconomy: a two-factor view**

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## Financial conditions can be summarized by two factors

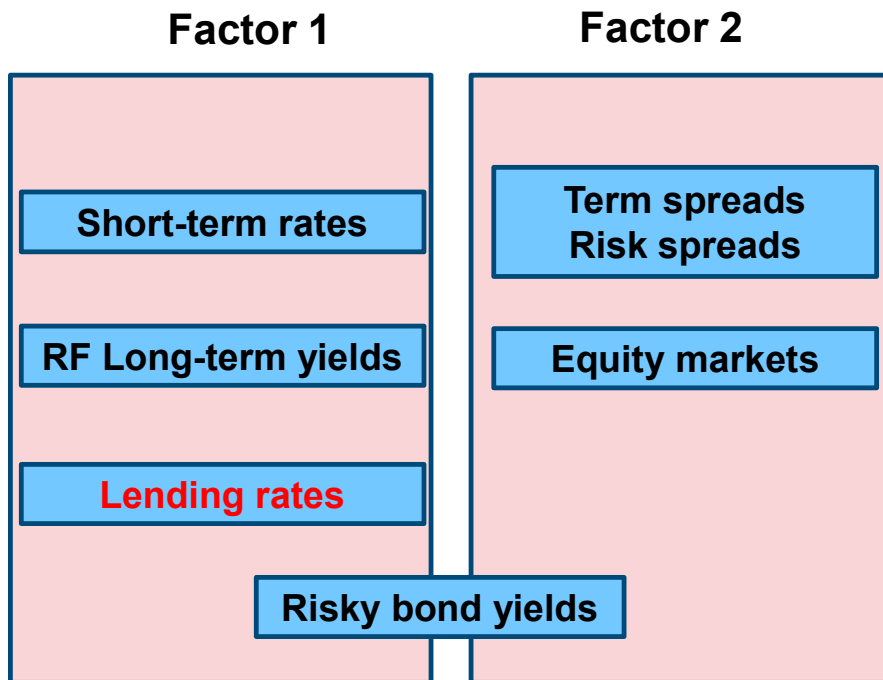


- Paper aims to summarize broad set of financial prices and yields by small number of factors (US and EA-countries)
- Authors obtain two factors which they interpret as follows:
  - Safe yields factor capturing interest rate channel
  - Risk factor capturing credit channel

## Issue highly relevant from monetary policy perspective

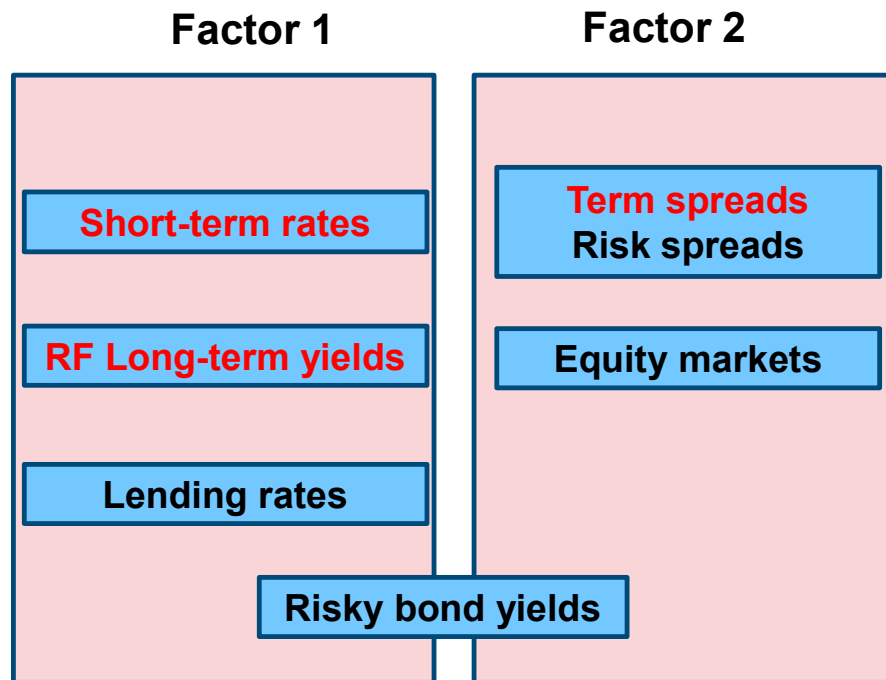
- Assessment of financial conditions central to monetary policy analysis.
- Condensing information contained in multitude of financial-conditions variables into small number of factors worthwhile endeavor.
- Particularly interesting, if each factor maps to specific monetary policy transmission channel.

## Comment: Lending rates



- Could you somehow decompose lending rates into low risk component and risk spread?
- Second factor loading on risk spread would strengthen your story.

## Comment: Role of term spreads?



- Short term rates, long term yields and their difference (term spreads) included in factor analysis → multicollinearity?
- Which factor loads on term spreads? When presenting factor loadings, show term and risk spreads separately.

## **Comment: Relevance of monetary policy transmission channels**

- Could you do more regarding the analysis of the importance of monetary policy transmission channels?
- What you have:
  - Effects of shocks to factors on macroeconomic variables (Output, Prices);
  - Effects of monetary policy surprises on factors.
- Seems straightforward to combine both to quantify effect of monetary policy on macroeconomic variables transmitted via first factor and via second factor.