

## Chart of the week

### A look back at financial-market stress, ten years after the crisis

Ten years after the bankruptcy of Lehman Brothers, the financial crisis is making headlines again. The continuing search for its causes and consequences will probably keep journalists and economic historians busy on its anniversary dates for decades to come. For markets, the more immediate question is whether there is a risk of a repetition of the crisis.

According to the financial-market-stress indicator calculated by the Federal Reserve Bank of St. Louis, there is currently little reason to fear a new financial-market crisis. This indicator tracks 18 components and is designed to indicate stress in the financial system. During the run-up to the crisis, the indicator sounded alarm during the summer of 2007, more than 12 months before the collapse of Lehman Brothers. The indicator is currently in the green. Largely, this may be because of central banks, which stabilized the economy and financial markets in difficult times with a variety of measures, some of them previously unimaginable. One danger is that this could prompt some market participants to return to piling up new risks. The rise in debt in the U.S. corporate sector could be an indication of this. It therefore seems likely that the current peace will not last forever. As we saw most recently in February 2018, the mood in markets can sometimes change very quickly.



■ St. Louis Fed Financial Stress Index\*

Sources: Federal Reserve Bank of St. Louis, DWS Investment GmbH as of 9/20/18

\* For a description of the Financial Stress Index see: <https://files.stlouisfed.org/files/htdocs/publications/es/10/ES1002.pdf>

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## Glossary

### Financial crisis

The **financial crisis** refers to the period of market turmoil that started in 2007 and worsened sharply in 2008 with the collapse of Lehman Brothers.

### U.S. Federal Reserve Board (the Fed)

The **U.S. Federal Reserve Board**, often referred to as "**the Fed**", is the central bank of the United States.

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