



Financial Markets Report - Fourth Quarter of 2016

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AUTHORS AND/OR EDITORS Vargas-Herrera, Hernando Cardozo-Ortiz, Pamela Andrea Rojas-Moreno, Juan Sebastián Romero-Chamorro, José Vicente Lemus-Esquivel, Juan Sebastián Martínez-Cruz, Diego Alejandro Mendoza, Andrés Mauricio Reyes, María Fernanda Rojas, Luis Alejandro Venegas-Karpp, Tatiana Vergara, Daniel Ricardo Publication Date: Monday, 6 of February 2023

Banco de la República (the Central Bank of Colombia) produces information intended for decision-making and accountability processes as well as for public knowledge. In particular, the Financial Markets Report responds to the principle of public dissemination, thus contributing to the Bank's service of providing quality economic information and research.

In line with the above, this report seeks to provide the public with a general analysis of the performance and trends of domestic and international financial markets. Additionally, the report points out the main factors that explain the performance of these markets, as well as their interactions. The report also presents an overview of the main changes in monetary policy and central bank decisions worldwide.

In 2016, international financial markets had mixed results in the face of various global macroeconomic and political events. Among the main events that impacted the markets during 2016, it is worth highlighting the US presidential elections, the uncertainty about future monetary policy rate movements by the Federal Reserve (Fed), and Brexit. Thus, during the year, the international stock markets performed well, the dollar strengthened against its main peers, and the US public debt market depreciated at the end of the year. When analyzing market risk perception indicators, a reduction was observed throughout the year which may have been influenced by the recovery in commodity prices and positive macroeconomic performance data in the main developed economies.

During the fourth quarter of 2016 (4Q16), the US dollar continued to strengthen in the face of expectations of a faster pace of increase in the US federal funds rate, capital outflows from emerging economies, and uncertainty regarding US economic policies. These elements also had a negative impact on the fixed-income market in the United States and Latin American countries. Finally, given the expectation of an expansionary fiscal policy in the US and some favorable macroeconomic results in developed economies, US, European, and Asian stock markets registered appreciations while the aggregate index for LATAM closed at a similar level to that observed at the end of 3Q16. In this context, the Colombian stock and local public debt markets performed favorably during 2016, although with some negative episodes in the face of external shocks.

The document is divided into eight sections, with this introduction being the first. Section two presents an executive summary of the document. Section three describes the most significant developments in the international economic environment. Subsequently, section four presents the performance of the main local risk perception indicators. Section five describes the global and local foreign exchange market. Section six presents an analysis of the money and fixed-income global and local markets. In addition, section seven describes the performance of the local primary private debt market. Finally, section eight analyzes the performance of the regional and local stock markets.