

Quarterly Update: Foreign Ownership of U.S. Assets

December 1, 2011

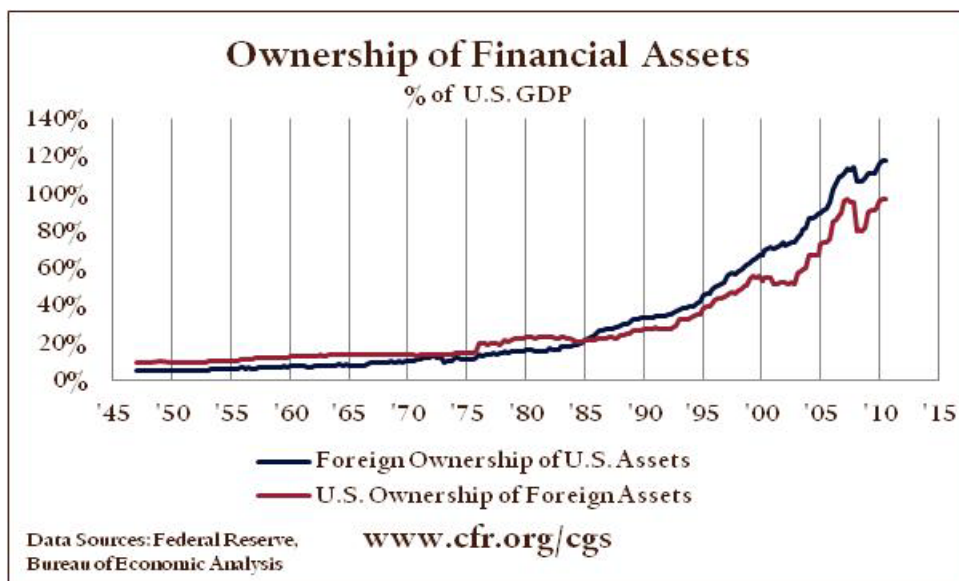
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Foreign ownership of U.S. assets has increased significantly since 1945, growing especially quickly over the past two decades. This growth is the result of a general increase in cross-border investment, with rising foreign ownership of U.S. assets being almost balanced by rising U.S. ownership of assets abroad.

Things to look for in these graphs:

- Since 2002, the increase in foreign ownership of Treasury bonds has been driven almost entirely by government buyers. Until the crisis, the same was true for bonds issued by government-sponsored enterprises (agencies).
- From 2005 to early 2007, combined foreign government Treasury purchases were driven by China. However, China became less significant during the crisis as other investors crowded in. Today, China's share of total foreign Treasury purchases is on the rise again.
- The U.S. portfolio of foreign assets is relatively risky, with a significant share of holdings in equities that generate gains during a boom but suffer losses in economic downturns. By contrast, foreign holdings of U.S. assets are less volatile because of the concentration in treasuries.
- Following a sharp decline in 2008, the U.S. net international investment position recovered in 2009 due to strong equity market performance. Dollar depreciation, which boosts the dollar value of U.S.-owned assets abroad, contributed to this recovery as well.



- Cross-border investment has grown as the world has become increasingly globalized.
- Since 1985, foreigners own more U.S. assets than Americans own foreign assets.
- In the latest quarter, foreign ownership of U.S. assets and U.S. ownership of foreign assets both registered slight increases.



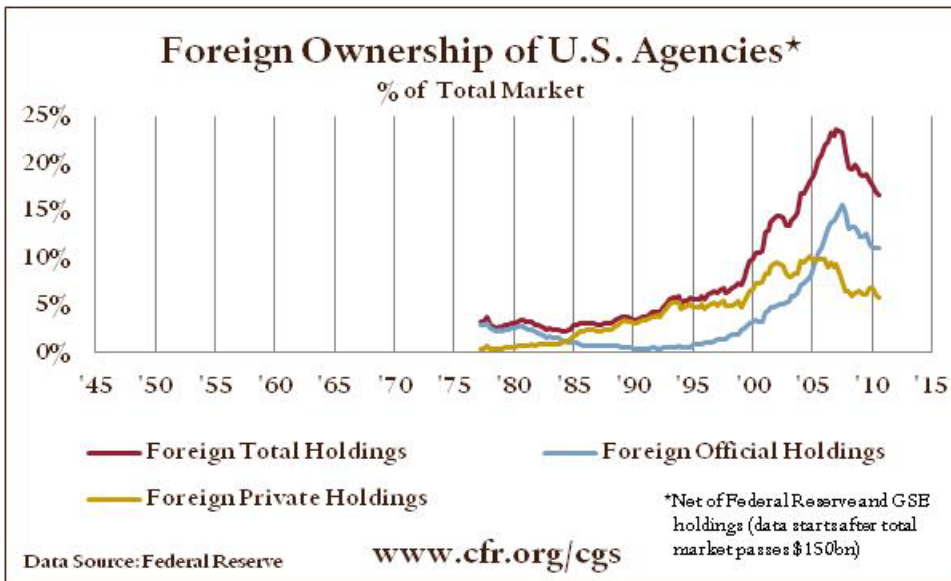
- Foreigners own a significant share of all outstanding treasuries and less significant portions of other asset markets. Their holdings of equities, while large in dollar terms, are small relative to the size of the equity market.



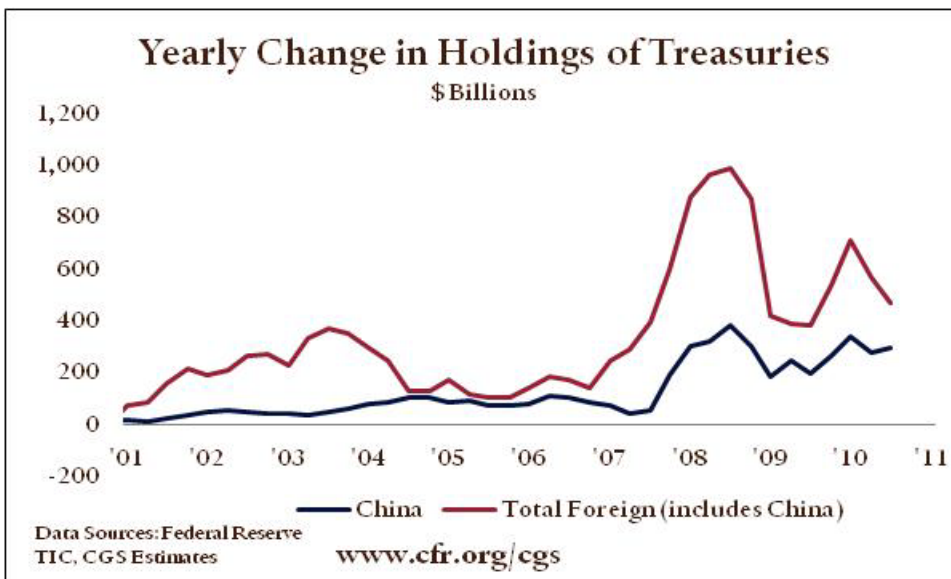
- Foreign ownership of U.S. treasuries has grown sharply since the middle of the 1990s, fell slightly from a Q4 2007 peak, and is now turning up again.
- Foreign ownership of the agency market has grown significantly as well, particularly after 2000, and despite stabilizing post-crisis near 20 percent, continues to decline.



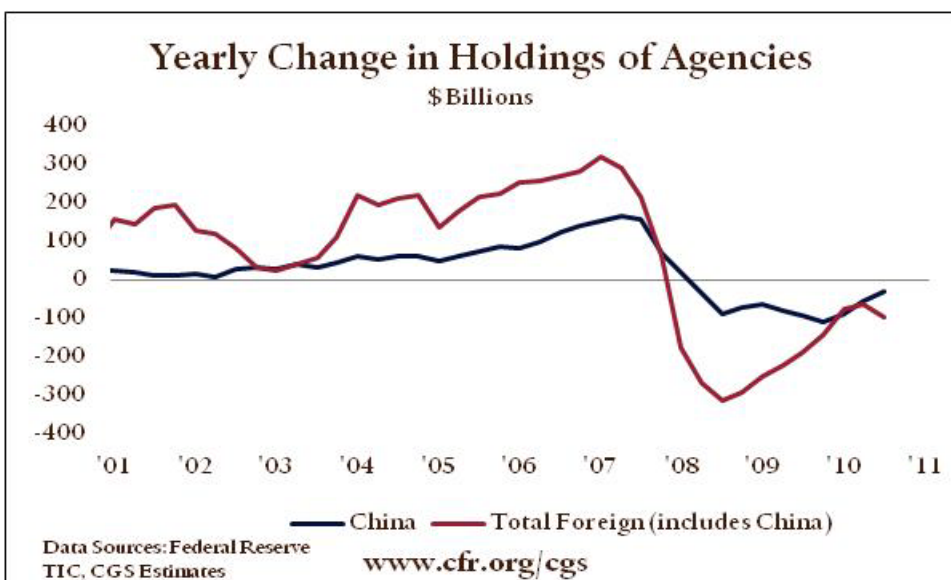
- The growth in foreign ownership of treasuries has come from official buyers (i.e., foreign central banks and sovereign wealth funds).
- Foreign private holdings have not grown as a share of the market over the past ten years.
- The much discussed “flight to safety,” which is presumed to underpin the dollar, largely reflects the huge policy-driven demand for dollar reserves from emerging market central banks, rather than the short-term fancies of private sector investors.



- As with treasuries, a significant portion of growth in foreign ownership of agencies has come from official buyers.
- Both private and official holders continue to reduce their share of the market.



- From 2005 to 2007, China made up a significant part of the total change in foreign holdings of treasuries.
- The flight to safety during the crisis reduced China's importance, but in the current recovery China has regained status as a driver of total foreign holdings.



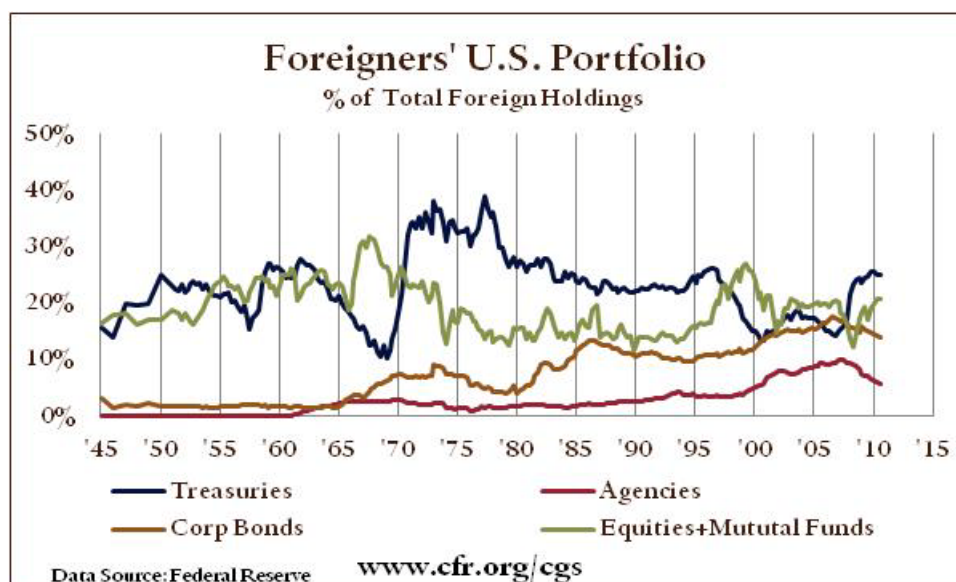
- China sold agencies during the crisis, but most of the selling pressure came from the rest of the world.



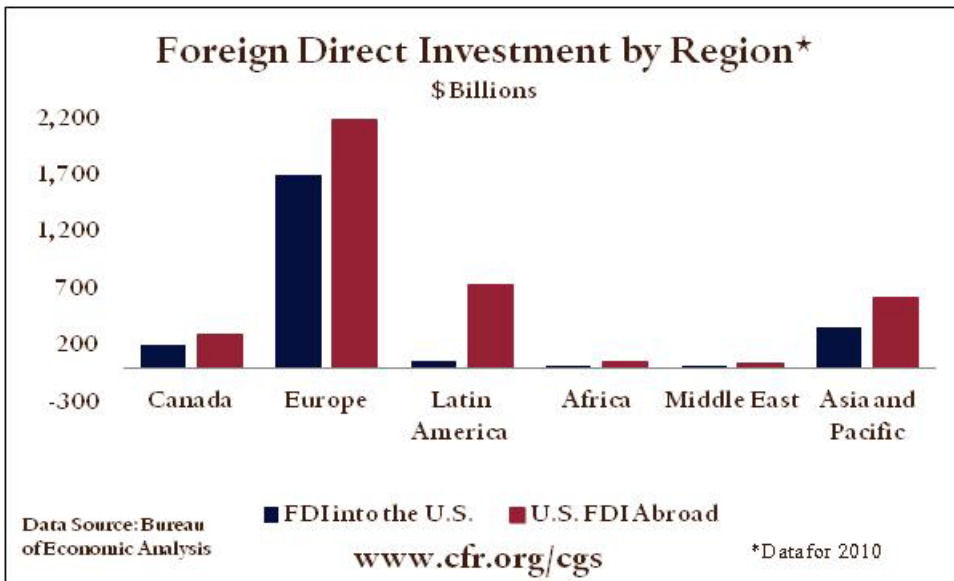
- In the midst of the crisis, Russia sold agencies more aggressively than China, reducing its holdings to almost zero.
- In recent months, China's appetite for agencies has stabilized.



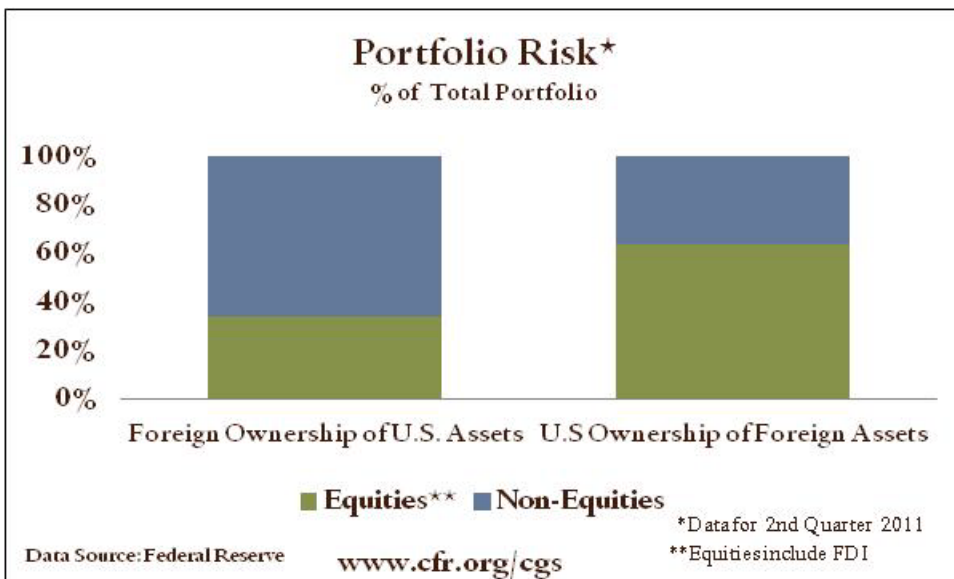
- Foreign ownership of corporate bonds as a percentage of the total has grown significantly since 1945. Although growth has been modest over the past two decades, Q3 foreign holdings are at levels not seen since the late 1980s.
- Foreign ownership of U.S. equities has grown slowly but steadily since the 1970s.



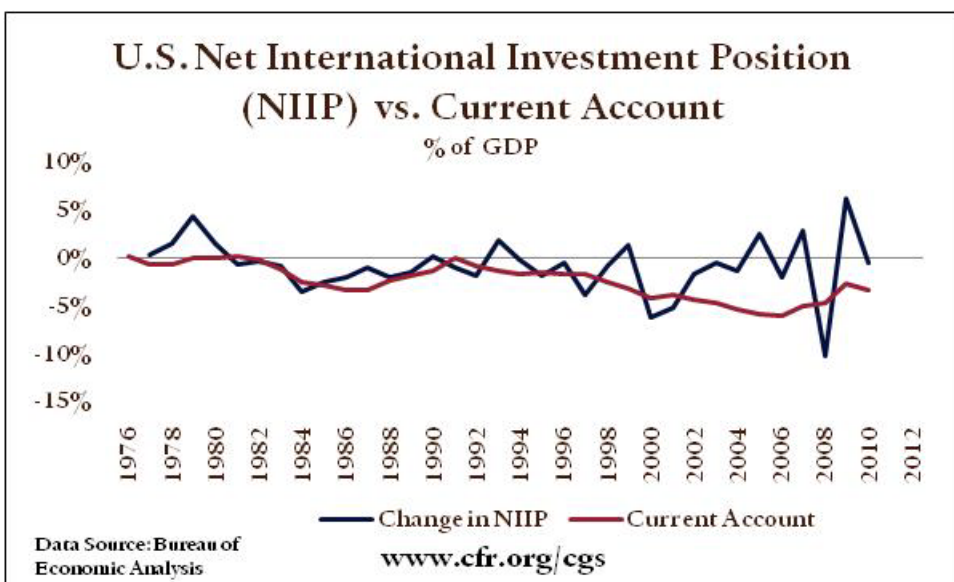
- The foreign preference for Treasury ownership had been waning over the past forty years but has returned since the crisis.
- Post-crisis levels of foreigners' equity and mutual fund holdings are back to levels last experienced just before the crisis.



- The United States invests more directly into foreign enterprises abroad than do foreigners into the United States.
- The sharpest contrast is in Latin America.



- The United States tends to hold riskier assets abroad (equities) than foreigners hold in the United States.



- Because of persistent U.S. current account deficits and corresponding capital inflows, foreigners buy more U.S. assets than vice versa. But because U.S. holdings abroad have usually yielded higher returns than foreign holdings in the United States, the U.S. net international investment position has deteriorated less—although there was a sharp decline in 2010.