

## Quarterly Update: Foreign Ownership of U.S. Assets

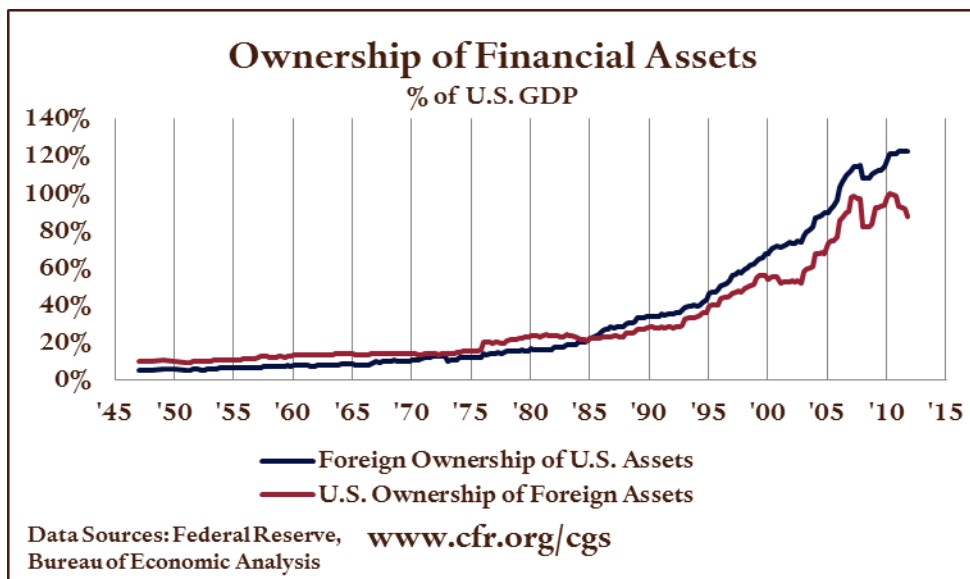
January 10, 2013

[Dinah Walker](#), Analyst

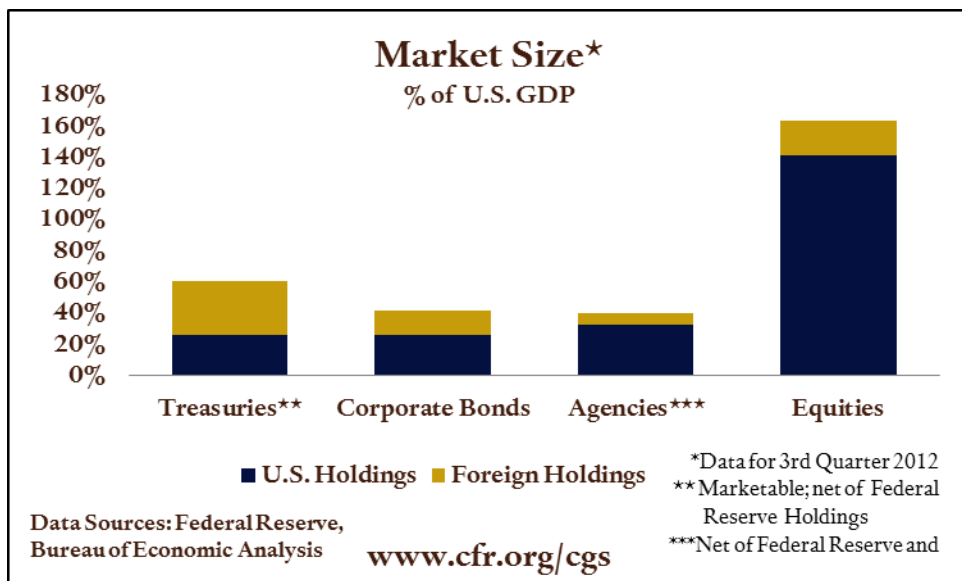
Foreign ownership of U.S. assets has increased significantly since 1945, growing especially quickly over the past two decades. This growth is the result of a general increase in cross-border investment, with rising foreign ownership of U.S. assets being almost balanced by rising ownership of assets abroad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

Things to look for in these graphs:

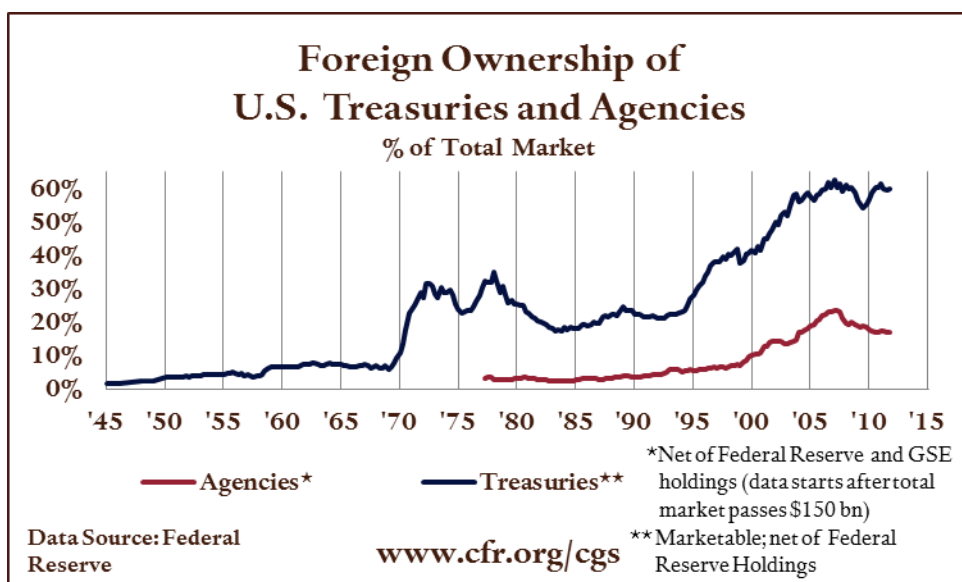
- Since 2002, the increase in foreign ownership of Treasury bonds has been driven almost entirely by government buyers. Until the crisis, the same was true for bonds issued by government-sponsored enterprises (agencies).
- If the Federal Reserve's holdings of treasuries are excluded, foreigners own nearly 60 percent of outstanding marketable treasuries.
- The portfolio of foreign assets held by the U.S. government, businesses, and households 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. In 2011, the net international investment position deteriorated markedly. External financial liabilities now exceed external financial assets by over \$4 trillion.



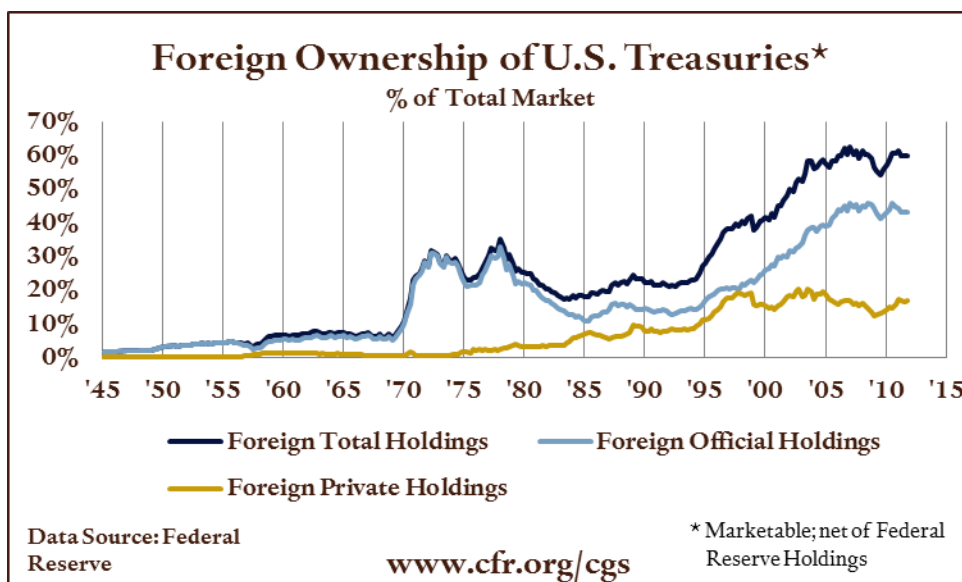
- Cross-border investment has grown as the world has become increasingly globalized.
- Since 1985, foreigners own more U.S. assets than Americans own foreign assets.
- In the latest quarter, foreign ownership of U.S. assets increased in line with the increase in U.S. gross domestic product (GDP).
- A \$700 billion decrease in the “unidentified miscellaneous liabilities” category drove an overall decline in U.S. government, business, and household ownership of foreign assets.



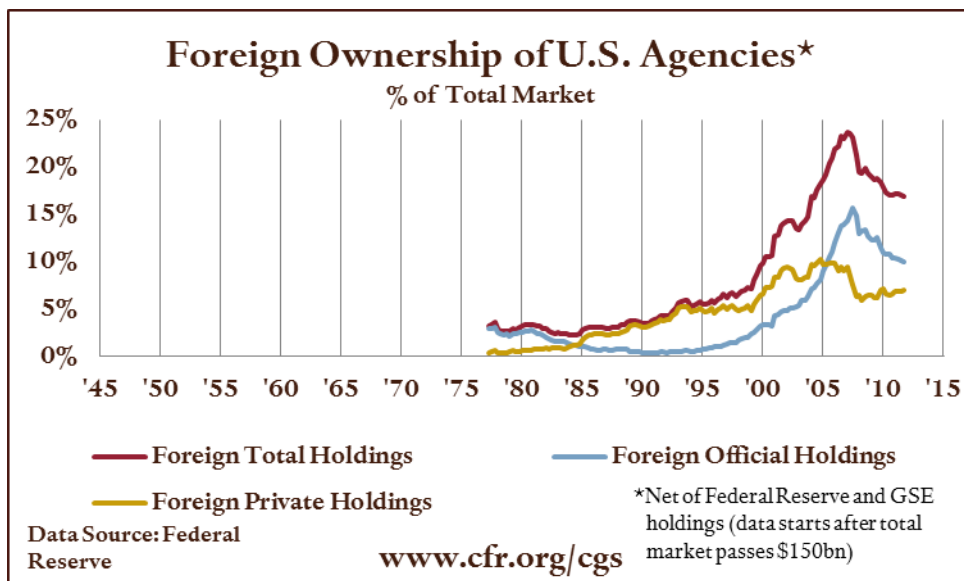
- If the Federal Reserve's holdings are excluded, foreigners own nearly 60 percent of outstanding marketable treasuries.
- Foreigners own less significant portions of other asset markets.
- Their holdings of equities, while large in dollar terms, are small relative to the size of the equity market.



- Foreign ownership of U.S. treasuries has grown sharply since the middle of the 1990s, fell slightly from a Q4 2007 peak, and has now turned up again.
- Before 2008, foreign ownership of the agency market grew significantly as well, particularly after 2000.
- Since 2008, foreign holdings of agencies have declined gradually.



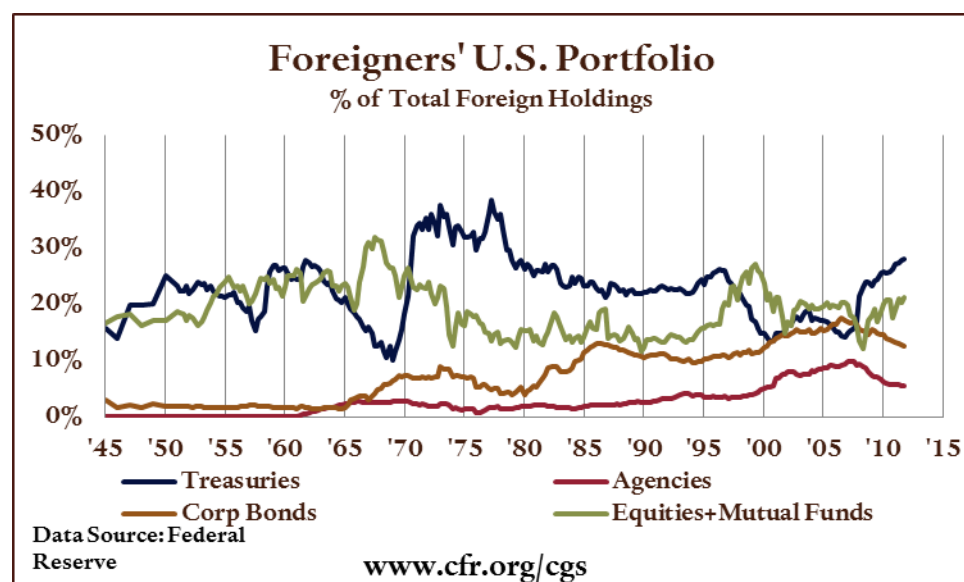
- The growth in foreign ownership of treasuries has come from official buyers (i.e., foreign central banks and sovereign wealth funds).
- Foreign private holdings have not grown as a share of the market over the past ten years.
- The much discussed “flight to safety,” which is presumed to underpin the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



- As with treasuries, a significant portion of growth in foreign ownership of agencies has come from official buyers.
- Foreign official holdings of agencies continue to decline, while private holdings have stabilized since 2008.



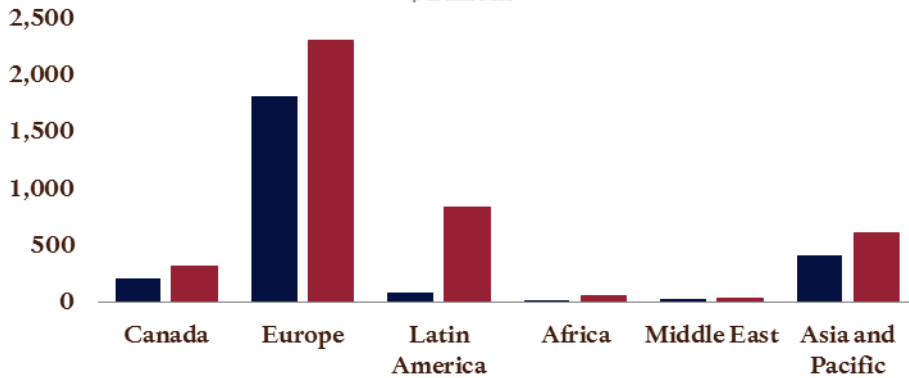
- Foreign ownership of corporate bonds as a percentage of the total market has grown significantly since 1945. Although growth has been modest over the past two decades, foreign holdings are now at levels not seen since the late 1980s.
- Foreign ownership of U.S. equities has grown slowly but steadily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



- The foreign preference for Treasury ownership had been waning over the past forty years but has returned since the crisis.
- Since the crisis, foreigners have allocated a declining share of their U.S. portfolios to corporate bonds and agencies.
- Their allocation to equities and mutual funds has rebounded since 2008 and has returned to precrisis levels.

## Foreign Direct Investment by Region\*

\$ Billions



Data Source: Bureau of Economic Analysis

■ FDI into the U.S. ■ U.S. FDI Abroad

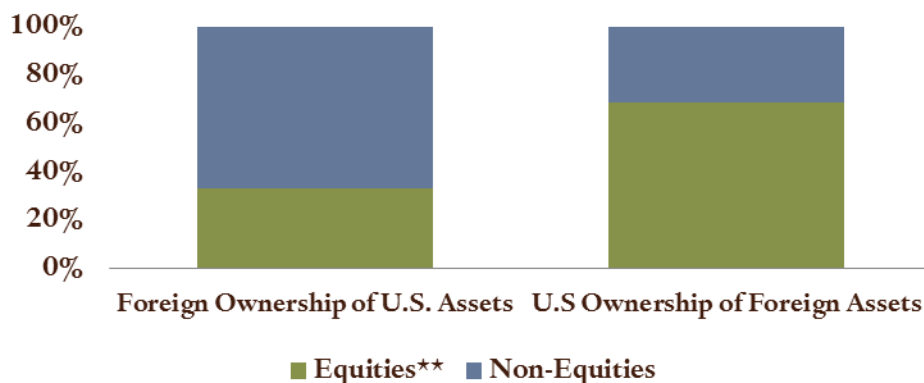
[www.cfr.org/cgs](http://www.cfr.org/cgs)

\*Data for 2011

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

## Portfolio Risk\*

% of Total Portfolio



Foreign Ownership of U.S. Assets U.S. Ownership of Foreign Assets

■ Equities\*\* ■ Non-Equities

\*Data for 3rd Quarter 2012

\*\*Equities include FDI

Data Source: Federal Reserve

[www.cfr.org/cgs](http://www.cfr.org/cgs)

- The U.S. government, businesses, and households tend to hold riskier assets abroad (equities) than foreigners hold in the United States.

## U.S. Net International Investment Position (NIIP) vs. Current Account

% of GDP



Data Source: Bureau of Economic Analysis

— Change in NIIP — Current Account

[www.cfr.org/cgs](http://www.cfr.org/cgs)

- Because of persistent U.S. current account deficits and corresponding capital inflows, foreigners buy more U.S. assets than vice versa. But because the holdings of the U.S. government, businesses, and households 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 2011.